

Public Utilities

FOUR MONTHLY

Volume XLI No. 10



May 6, 1948

DECENTRALIZATION — DEFENSE AGAINST "ATOMIZATION"?

By Chester I. Barnard

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Utility Coöperation with the Co-ops

By Sutherland Dows

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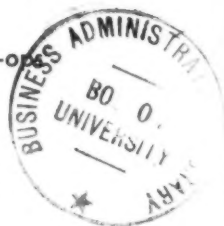
The Vexing Colorado River Water Supply Problem

By Ben Avery

« »

Public Corporations in Britain

By Lord Knollys



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a pension
plan

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for impartial
advice

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Public Utilities

FORTNIGHTLY

VOLUME XLI

MAY 6, 1948

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PUBLIC UTILITIES FORTNIGHTLY .. stands for Federal and state regulation of both privately owned and operated utilities and publicly owned and operated utilities, on a fair and nondiscriminatory basis; for nondiscriminatory administration of laws; for equitable and nondiscriminatory taxation; and, in general—for the perpetuation of the free enterprise system. It is an open forum for the free expression of opinion concerning public utility regulation and allied topics. It is supported by subscription and advertising revenue; it is not the mouthpiece of any group or faction; it is not under the editorial supervision of, nor does it bear the endorsement of, any organization or association. The editors do not assume responsibility for the opinions expressed by its contributors.

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MAY 6, 1948

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Pages with the Editors

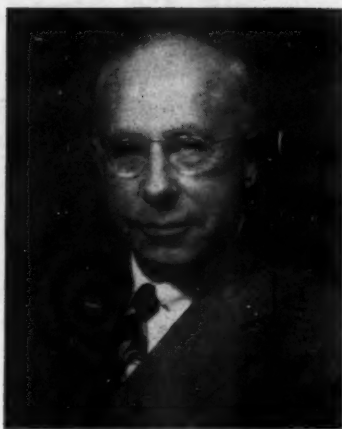
OUT on Long Island the Atomic Energy Commission is building the first plant to make electric energy as a by-product of atomic fission. This is the Brookhaven National Laboratory, rising on the site of wartime Camp Upton. By the end of the year this world's first atomic power plant is scheduled to be running.

BUT Sydney B. Self, writing in *The Wall Street Journal*, points out that it will probably also rank as the world's least economic power plant. This is because of the enormous expenditures which must go into complicated devices to handle and utilize reacting uranium. Such is probably the principal reason why the electric power industry is not worried about any revolutionary changes in the ordinary method of generating electric power during the next ten to twenty years, according to Mr. Self.

Electrical World was even more conservative, in a recent editorial comment that "it is going to be a quarter of a century before atomic electric energy can do any more than supplement conventional sources." Somewhat more debatable, perhaps, is the *World's* flat statement that "this estimate has become standard, recently."

BUT the trouble with thinking of peacetime application of atomic developments in terms of simply providing a new way of doing the same things we now do, is that the future may not turn out that way at all. A war or some other national emergency may well require us to do new and radically different things in new and radically different fashion, including not only the building and location of power plants, but the moving and relocation of other public utility facilities as well.

THE smoke of the bombing of Hiroshima and Nagasaki had scarcely cleared away when speculation arose as to possible defenses against atomic war—
MAY 6, 1948



CHESTER I. BARNARD

fare. One immediate reaction was a dispersal of our concentrated industry and population. This would take time and money, and naturally raises the question of whether, even despite such sacrifices, the effort would be effective.

IN this issue we are fortunate in being able to present a level-headed analysis, in general terms, of what a wholesale dispersal of industry would entail. It is by an experienced public utility official who has won national recognition by his appointment (effective July 1, 1948) to become president of the national Rockefeller Foundation. He is CHESTER I. BARNARD, until recently president of the New Jersey Bell Telephone Company and now chairman of the board of that corporation. MR. BARNARD also has functioned as an adviser to the Secretary of State on atomic control and has testified before Congress on such matters. He was born in Malden, Massachusetts, in 1886, and educated at Harvard University.

MR. BARNARD began his Bell system career in the traditionally modest way with the statistical department of the

...he found that



*Annie had ants
in her stance ...*



...and things have gone much smoother since!

● A record-systems survey by a Diebold Man results in profitable work simplification—time and space saved—a more efficient organization. In Annie's case it happened to be a matter of waste movements—and the Diebold Man recommended Cardineer rotary card file. Work actions in Annie's posting operation were reduced from 12 to 7. Annie's work was easier, she was more accurate, she posted more accounts in a day.

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American Telephone and Telegraph Company in 1909. He became assistant vice president and general manager of Bell Telephone Company of Pennsylvania in 1922, rising to the vice presidency in 1925. He became the first president of New Jersey Bell Telephone Company in 1927, from which post he retired early this year.

He has been exceedingly active in scientific and economic organizations and societies, and served as technical adviser on telephone matters to the Federal government during both world wars. He was appointed a member of the board of five consultants to the Department of State on the atomic energy problem in 1945.

SPEAKING of the AEC pilot power plant on Long Island, operating utility men will be interested to note that the atomic plant executive of the future may have the most difficult "ash disposal" problem it is possible to conceive. It appears that at intervals the "ash" of the uranium "fuel" must be removed from the uranium "furnace." Although relatively tiny in amount, this residue is highly radioactive and must be handled in awkward fashion by remote control, from behind thick concrete barriers. After that, what happens?

PRESENT plans call for storing it underground until it "cools off." It cannot be dumped in the surrounding waters of the Atlantic ocean or the Long Island sound, nor even left on the surface of the ground, as an ordinary ash heap. It must be buried deep enough and securely enough to prevent contamination of air, water, or land by the deadly rays. Fortunately, most of the ingredients will lose their radioactivity fairly soon. Maybe after that the "ashes" can be dumped into the sea. But the scientists are not too sure about that.

* * * *

ANOTHER utility executive who is a contributor to this issue is SUTHERLAND DOWS, president of the Iowa Electric Light & Power Company, whose account of his company's experience in co-operating with REA co-ops begins on page 604. He was born in Cedar Rapids, Iowa, in 1891, graduated from Yale

(PhB, '13), and thereafter entered employment of the Iowa Electric Light & Power Company, becoming purchasing agent in 1916, general manager in 1919, vice president in 1926, executive vice president in 1932, and president since 1941.

* * * *

EARLIER this year there was published in the FORTNIGHTLY an article on the lower basin state controversy over the distribution of waters from the Colorado river. This was written more or less from the California point of view and naturally it attracted the attention of some of our readers in Arizona. So just by way of evening up our presentation we asked BEN AVERY, Phoenix, Arizona, newspaperman, to give us another article dealing with this subject—this time from the Arizona point of view.

* * * *

LORD KNOLLYS, whose article on the British public corporation begins on page 615, is former chairman of the British Overseas Airways Corporation, and son of the first Viscount Knollys. Born in 1895 and educated at Harrow and New College, Oxford, LORD KNOLLYS, KCMG, MBE, DFC, now makes his home at "Bingles," Lye Green, Withyam, Sussex.

* * * *

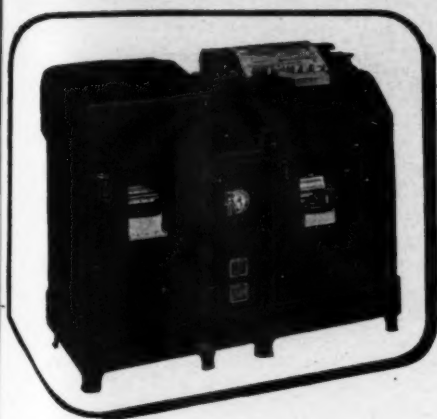
AMONG the important decisions printed from *Public Utilities Reports* in the back of this number, may be found the following:

THE Maine commission believes that profits on sales of merchandise and jobbing should bear the cost of adjusting, repairing, and servicing gas appliances, and such cost should not be deemed an operating expense to be borne by customers generally. (See page 145.)

THE Illinois commission, in fixing telephone rates, considers demands of investors for higher interest and dividends than in the past. (See page 149.)

THE next number of this magazine will be out May 20th.

The Editors



Our 40th is our FINEST

FOR 40 YEARS . . . Remington Rand has been THE source of major punched-card developments. That's why our anniversary line of punched-card accounting machines is the *finest* available anywhere today.

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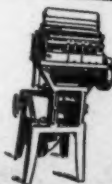
1908—
FIRST Die-set Punch



1912—
FIRST Horizontal Sorter



1913—
FIRST Printing Tabulator



1924—
FIRST Alphabetical Tabulator



NEW MIDDLE SOUTH THREE-STATE AREA PROMOTION

There is a growing sentiment among utility company officials that there is much long-range wisdom in originating and co-operating with the promotion of local enterprise. Recently the curtain went up on a substantial campaign by major utilities in three southern states—Arkansas, Louisiana, and Mississippi—to carry on just such a program. Betty Lee Gough, New Orleans author of business articles, covered this dedication ceremony and gives us an account of its import.

GERMAN COMMUNICATIONS UNDER QUADRIPARTITE GOVERNMENT

From the authoritative pen of Eugene H. Merrill, chief, communications group, Office of Military Government for Germany (U. S.), we have been able to get an on-the-spot account of how American occupation authorities have rehabilitated the German communications systems in Berlin and elsewhere. The recent difficulties with the Soviet government over the control of Berlin gives an especially timely interest to this discussion.

A SYMPOSIUM ON MICROFILMING REGULATORY RECORDS

The idea of filing multitudinous detailed records of utility operations on microfilm is hardly new. But it may interest if not surprise our readers to know that there are special regulatory aspects of such a movement. Gerald M. Whitright of the FORT-NIGHTLY staff has excerpted and collated significant passages from a symposium of reviews of qualified authors presented under the forum of the Federal Communications Commission.

THE NORTHWEST LINE PATROL TAKES TO THE AIR

It may seem like a long jump from snowshoes to regular patrolling by airplane, but the sentinels of public service, whose duty it is to keep the lines in operation over the snow-capped hills of the Far Northwest, have taken such a transition in stride. Kimball I. Jack, publicity director of the Washington Water Power Company, Spokane, tells us about this modern innovation in a routine but important function of utility service protection.

Also . . . *Special financial news, digests, and interpretations of court and commission decisions, general news happenings, review, Washington gossip, and other features of interest to public utility regulators, companies, executives, employees, investors, and others.*



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When such a seemingly unimportant item as a bushing failed — a transformer in an important sub-station was enveloped in blazing oil. Hose streams were inadequate to cope with the situation. Damage amounted to thousands of dollars before the fire was controlled.

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into a liquid which is incapable of burning — the fire is extinguished in a few seconds—reignition is prevented.

There is absolutely no conductivity along the discharge of a Mulsifyre projector when spray strikes conductors carrying high voltages. Mulsifyre Systems are permanently installed — are constantly on guard when operated automatically — or may be operated manually.

Recommended by Underwriters' Laboratories for use in extinguishing fires in flammable oils immiscible in water, wherever such oil is a fire hazard — in transformers and other oil-filled electrical equipment.

Don't wait for fire to strike. Provide this 24-hour-a-day protection for your equipment from now on. Grinnell engineers will help you plan protection for your specific needs.

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Remarkable Remarks

"There never was in the world two opinions alike."

—MONTAIGNE

WALTER C. PLOESER
U. S. Representative from
Missouri.

"A bankrupt or dead business pays no taxes."

DONALD R. RICHBURG
Partner, Davies, Richberg, Beebe,
Busick & Richardson.

"Communism thrives in dark places as well as in dark minds."

EARL O. SHREVE
President, United States Chamber
of Commerce.

"Competition . . . is the live steam which makes the wheels of the American enterprise system turn."

JAMES J. O'LEARY
Director of research, Committee
on Public Debt Policy.

"... the great mass of Federal taxation weighs heavily on the incentive to save in our peacetime economy."

JOHN H. VAN DEVENTER
Director of information, Committee
for Economic Development.

"There is no simple remedy for moderating the swings of the business cycle. It is affected by many factors."

C. H. MOSES
President, Arkansas Power &
Light Company.

"If Congress believes the government should take over the power business it should pass a law to that effect and buy out the present companies at a fair price."

CHARLES SEYMOUR
President, Yale University.

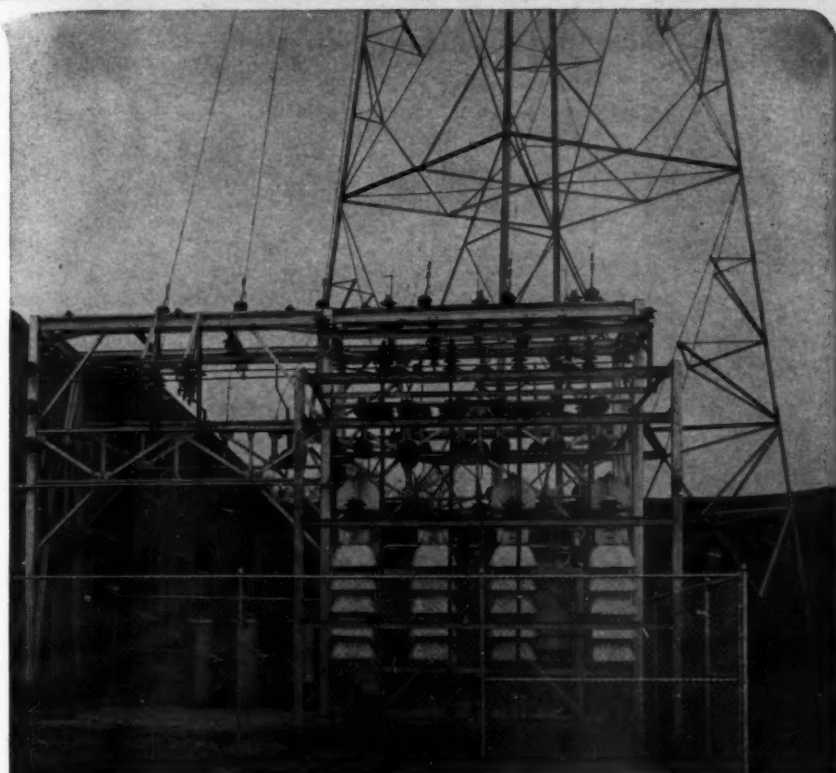
"You cannot legislate a spirit of tolerance through an antidiscrimination bill any better than you could legislate sobriety through a constitutional amendment."

EDITORIAL STATEMENT
Chicago Journal of Commerce.

"When the history of Mr. Lewis' thirty years' war with the coal operators is finally written—with all its attendant miseries for the American people—our descendants will wonder what sort of people we are to permit one arrogant man to lead a nation by the nose."

W. RANDOLPH BURGESS
Vice chairman, National City
Bank of New York.

"Economists for years have been talking about the merits of heavy government expenditures in depression years and cutting down such activities in boom periods. Yet here we are, with the largest peacetime budget in history at a time of boom when under the rules the budget should be curtailed. [Politically] we are practicing ostrich economics."



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In central stations and sub-stations throughout the country thousands of Exide Batteries are ready to respond instantly to every power demand. They are being used for control bus and switchgear operation, emergency lighting, many other storage battery tasks. Whatever the job, you can always trust Exide Batteries for peak performance and maximum battery economy.

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REMARKABLE REMARKS—(Continued)

HOLCOMBE PARKES
Vice president, National
Association of Manufacturers.

"Every objective survey that has been made in recent years proves conclusively that no good presentation of the truth, whatever form the presentation may take, ever hurt an industry, a company, or a spokesman."

ROY A. HUNT
President, Aluminum Company of
America.

"There will always be room for, and a need for, new ideas. Despite our highly complex mode of modern living, many things remain to be done for the betterment of mankind—there are countless rainbows to be finished."

COLE COOLIDGE
Assistant director, chemical department, E. I. du Pont de Nemours & Company.

"Research is now referred to as the main reconnaissance staff of industry. It must keep years ahead of the forces of production so that these forces will always be directed and pushed toward a still higher standard of living."

WILBUR J. BRONS
Columnist.

"... the plain, unvarnished truth is that we can no longer gamble upon our ability to indulge in 'social gains' based on Federal largess while continuing simultaneously to spend upward of \$25 billion a year for national defense."

M. J. BONN
Writing in *American Affairs*.

"It would be a great pity were the Socialist Labor party to be released from power and responsibility before a majority of its followers has learnt the lesson that leisure is the result of plenty and plenty is the result of work."

RALPH HENDERSHOT
Financial editor, *New York World-Telegram*.

"Dividends, it should be appreciated, are the payments stockholders receive as wages or rentals for the use of their money in business. They are as necessary to the satisfactory conduct of business as wages to employees or rental for property."

EDITORIAL STATEMENT
The Wall Street Journal.

"The first step in correcting inflation must be to cease increasing the supply of money. Unless that step is taken no other measures which anyone has proposed will be effectual; each and every one of them will be pushed aside and trampled under the feet of dollars chasing goods."

Excerpt from Republic Steel
Corporation advertisement.

"A capitalist, says Webster, is 'one who has capital for investment.' A stockholder is 'one who is a holder or proprietor of stocks.' What the dictionary doesn't tell you is that, in our present-day America, practically everybody is a capitalist and millions of us are stockholders."

EDITORIAL STATEMENT
The Nation.

"No one believes revolution is imminent in either France or Italy. The danger is that Communist efforts to discredit the existing governments—an easy enough job, under the circumstances—may open the way for all-out reaction, especially since their bitter attacks on the Socialists have made collaboration among the parties of the left practically impossible."



Imagine *doing an analysis job* with not 6 . . . but 300 hands!

THAT'S what happens in our Bill Frequency Analyzer which is one of the most remarkable machines you ever saw. It is an electro-mechanical device with 300 registers which automatically classify and accumulate—all in one step!

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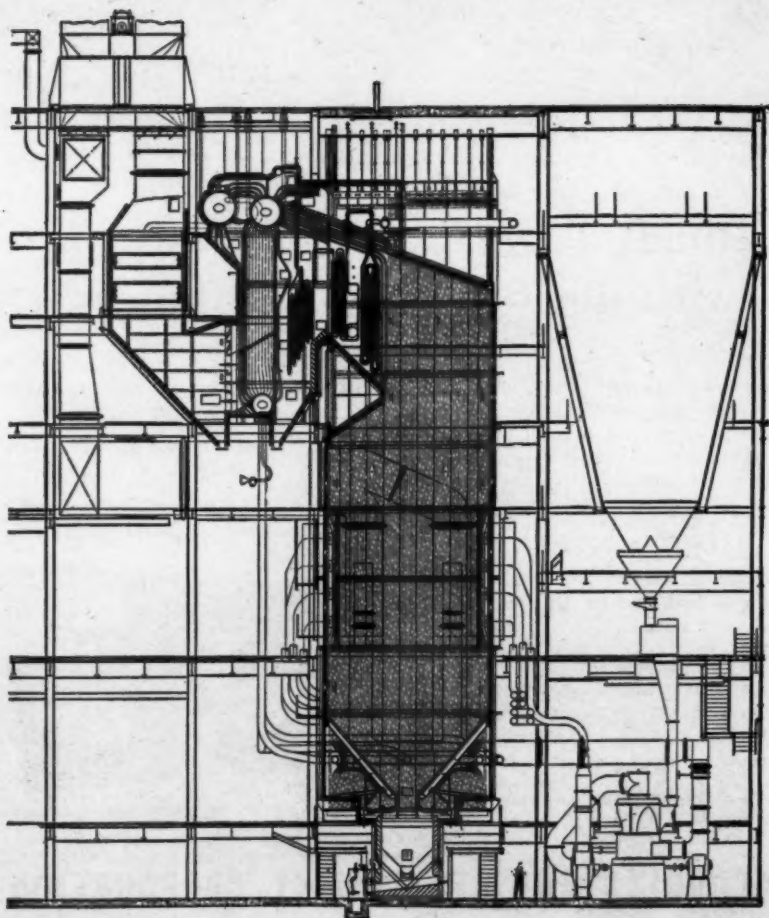
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recent
C-E steam generating units
for utilities



AVON POWER PLANT

THE CLEVELAND ELECTRIC ILLUMINATING CO.

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They are of the 3-drum type with 3-stage superheaters and separate finned-tube economizer immediately following the boiler surface. Regenerative air heaters follow the economizer.

The furnaces are completely water-cooled, using both closely spaced plain tubes and finned tubes as required. They are of the basket bottom type, discharging to sluicing ash hoppers. The units are pulverized coal fired, employing C-E Raymond Bowl Mills and C-E Vertically-adjustable, Tangential Burners. These burners in combination with Montaup-type bypass dampers assure accurate control of superheat temperatures.

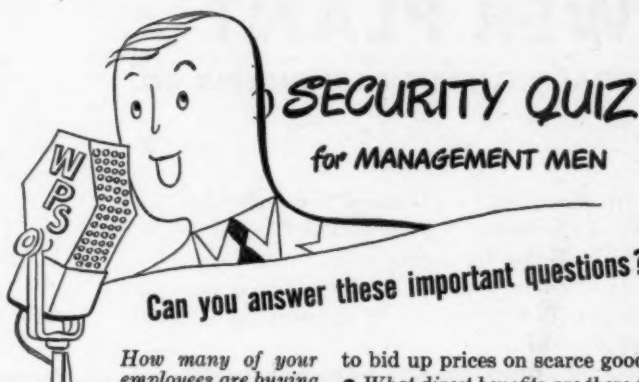
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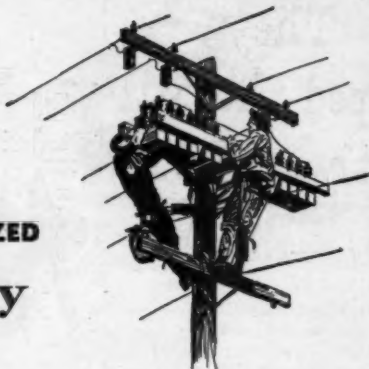
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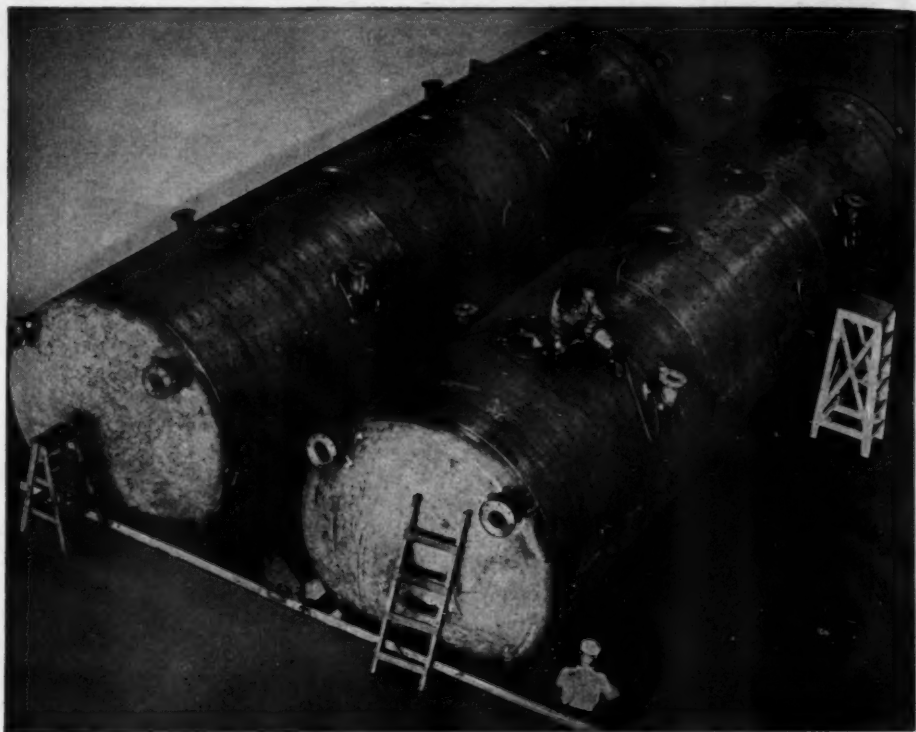


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Utilities Almanack

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6	T ^a	☿ <i>Southeastern Electric Exchange, Engineering and Operating Section, begins spring conference, Tampa, Fla., 1948.</i>
7	F	☿ <i>Midwest Power Conference begins, Chicago, Ill., 1948.</i> ☿ <i>American Water Works Association ends conference, Atlantic City, N. J., 1948.</i>
8	S ^a	☿ <i>New York-New Jersey Regional Gas Sales conference will be held, Rye, N. Y., May 24, 25, 1948.</i> ☾
9	S	☿ <i>Public Utilities Advertising Association will hold annual meeting, Cleveland, Ohio, May 27, 28, 1948.</i>
10	M	☿ <i>Northwest Electric Light and Power Association, Business Development Section, begins meeting, Victoria, B. C., 1948.</i>
11	T ^u	☿ <i>Engineers Club of Philadelphia begins Engineering Progress Show, Philadelphia, Pa., 1948.</i>
12	W	☿ <i>American Water Works Association, Pacific Northwest Section, begins meeting, Boise, Idaho, 1948.</i>
13	T ^a	☿ <i>Pennsylvania Independent Telephone Association begins annual convention, Pittsburgh, Pa., 1948.</i>
14	F	☿ <i>New Jersey Utilities Association begins one-day spring meeting, Seaview, N. J., 1948.</i>
15	S ^a	☿ <i>Southeastern School Lighting Institute ends one-month exhibit, St. Petersburg, Fla., 1948.</i> ☾
16	S	☿ <i>American Society of Refrigerating Engineers will hold spring meeting, Swampscott, Mass., May 31-June 2, 1948.</i>
17	M	☿ <i>American Public Power Association begins annual convention, Colorado Springs, Colo., 1948.</i>
18	T ^u	☿ <i>Pennsylvania Gas Association begins annual meeting, Wernersville, Pa., 1948.</i>
19	W	☿ <i>Kansas Telephone Association begins annual convention, Topeka, Kan., 1948.</i>



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Public Utilities

FORTNIGHTLY

VOL. XLI, No. 10



MAY 6, 1948

Decentralization—Defense Against “Atomization”?

There is a certain danger that some groups of our population, even including people in the utility business, will be tempted to consider favorably one proposed elaborate defense against the possible use of the atom bomb if war should come again. This defense is decentralization of our population and industrial plants.

By CHESTER I. BARNARD*

CHAIRMAN OF THE BOARD, NEW JERSEY BELL TELEPHONE COMPANY

UTILITY executives are generally alert to the dangers of loose thinking about defenses against the atom bomb. They are familiar with the practical need for planning five, ten, to several decades in the future because shifts in population, in habits, in scientific development are the very basis of changes in demand for electric power, telephone facilities, and

other utility services. To make such changes requires years of study followed by a long period of construction of huge plants and distribution systems.

One proposed defense against the possible future use of the atom bomb looks fairly logical on its face. It is decentralization of population and industrial plants; spreading all national activity thinly throughout the nation so that no group of several bombs could destroy our economy. Some writers even suggest that most of our industrial plants be not only spread but sub-

*Mr. Barnard has been designated president of the Rockefeller Foundation, effective July 1st. For additional personal note, see “Pages with the Editors.”

PUBLIC UTILITIES FORTNIGHTLY

merged beneath the surface of the ground.

Decentralization

THE concentration of our population and our industries in large cities and in vast manufacturing plants is the condition of maximum vulnerability not only to atom bombs but to other types of bombs as well. The direct reduction of that dangerous condition calls for the dispersion of both our industrial plants and our population. If that were to be done quickly—say in ten or twenty years—the cost would be so great as to reduce our standard of living to an extremely low level, and even the beginning of an attempt to do so would so affect the structure of urban real estate values as well as those of industrial plants as to shatter the entire economy of the country.

It doesn't take much imagination to visualize the chaos which would result. Let us see what would happen to the American Telephone and Telegraph Company (AT&T) for instance. The parent company alone owns about \$4 billion in plant and equipment. By the very nature of its business and the concentrations of population in the country, much of this plant represents huge investments in large metropolitan centers. If these large centers were reduced in size by as much as one-third or one-half, it is easy to see that the Bell system could not continue to exist as such. The earning power of existing plant would be reduced so greatly that dividends and even bond interest could not be met. This is not all, because an entirely new system would have to be built and financed to service the new dispersed population and industry. The AT&T alone has more than 700,-

000 stockholders. As we begin to examine the extent of such decentralization of a few large industries upon the incomes of individuals, banks, insurance companies, educational institutions, it can be seen that the idea falls practically of its own lack of weight. As the dispersion increases, the whole system blows away.

IT would not be necessary to go to the Library of Congress or even pick up *The World Almanac* or *Statistical Abstract* to visualize the results of breaking up the big cities and the large industries. All large city governments would be broken up, automatically, in a short time because of decreases in the value of real estate. Here again the effect on the financial stability of the nation would be catastrophic.

The drastic destruction of the values of both residential and other properties and the extreme opposition to the forced dispersion of populations all seem impossible of accomplishment except under a scheme of regimentation that would be nothing less than totalitarian government. Before such a redistribution of our industrial resources could be accomplished, and even after that, we should be subjected to a life of perennial fear; and the burdens of constant preparations for defense on a scale of which we have no experience in this country in peacetimes would be our perpetual lot.

Fear of Destruction

THE perennial fear of impending destruction is probably more deadly to our civilization than even the immense burden of taxation which constant preparation for defense against atomic warfare would impose. The British having a more concentrated

DECENTRALIZATION—DEFENSE AGAINST "ATOMIZATION"?

urban civilization than we, and having already experienced the immense damage of aerial bombing, are more realistic about this aspect of atomic armament than we are likely to be. A quotation from a recent report on "The Era of Atomic Power," by a commission appointed by the British Council of Churches, illustrates this point:

"It is not easy," states the report, "to contemplate the nature of our lives if the political attempts to find methods of international control prove fruitless, and thus a state of tension were to arise comparable to that which existed in the years before the war which has just ended. But we can turn our minds back to the years between 1935 and 1939 and consider what they would have been like if the atomic bomb had already been invented. Even then, with a far less probable prospect of less complete destruction and disorganization, it was clear that European civilization could not long endure the uncertainty created by the constant danger of war. The mere discovery of the atomic bomb itself, even if it is never used, might well create such strains in our society as to destroy it. If human experience counts for anything we can only conclude that in such a state of insecurity most men and women would be forced back into a life that accepted impermanence as something inevitable, and would live

only for the present. No more powerful solvent of any society can be imagined than the general acceptance of this view. It would be blindness to ignore the presence already in the minds of many young men and women of a feeling in some ways akin to such despair, a belief that for them political action is futile, for they are helpless in the grip of forces quite beyond their control."

So much has been published about the destructiveness of a single atomic bomb that it should be unnecessary to say much more about it. The bomb's blasting power is enormous, many times that of the largest bombs heretofore made. Terrible as this is, its auxiliary effect in burning people and materials that are inflammable and its radiation effects seem to be even more terrible. It is these which most clearly distinguish the atomic bomb from other explosive agents. This is enough to justify the fears of its use in warfare; but it is not the whole story. The atomic bomb is a new thing and it would be very strange indeed if, unlike most other new things, it were not susceptible of great improvement and development. We ought to have constantly in mind that powerful as it is today, either we or someone else may find a means of developing a bomb far



“ONE proposed defense against the possible future use of the atom bomb looks fairly logical on its face. It is decentralization of population and industrial plants; spreading all national activity thinly throughout the nation so that no group of several bombs could destroy our economy. Some writers even suggest that most of our industrial plants be not only spread but submerged beneath the surface of the ground.”

PUBLIC UTILITIES FORTNIGHTLY

more devastating than our imaginations can envisage. Indeed, some scientists believe it possible to make a bomb equivalent to 2,000,000 tons of TNT.

The atomic bomb is not a weapon of defense but of offense. It lends itself especially to the blitzkrieg sudden attack such as the Japanese used at Pearl Harbor. This is the more terrible because even if there were substantial means of defense against such bombs, the organization of defense against their surprise use would be extraordinarily difficult. Although it is quite true that a large-scale surprise attack might not be sufficient to conquer a country, the possibilities of destroying the centers of population and of production and of complete disruption of communications are such that a mass surprise attack with atomic bombs would constitute at best a catastrophe to any country subjected to it.

WHEN we contemplate these possibilities and the almost absolute certainty that atomic bombs will be used in the next war, and the high possibility that other nations will have the bomb at least after not many years, it seems that everything that we do for the future, for our children and their children, is almost pointless in the face of the calamity so close to us. Because there is so little that you and I personally can do about it, we almost inevitably put this great danger aside or minimize it as much as we can.

But the atomic bomb is not the only means of mass destruction in war. There were about 185,000 casualties of the first American bomber attack on Tokyo, chiefly from incendiary bombs. It probably makes little difference to the individual whether he dies from

burns from a petroleum bomb or from fires set with it or from burns or radiation from an atomic bomb. Without any new inventions whatever, most of the horrors of atomic bombs can, in practical effect, be accomplished by the other means such as rocket bombs, which were already in use before Hiroshima. All these other means are themselves susceptible of further development, as you well know; but in addition to these there are the possibilities of chemical and biological warfare which may be more terrible and devastating than all the atomic bombs that could be effectively used. Thus, in practical effect international control of the atomic bomb is not sufficient to vouchsafe the preservation of the kind of civilization we are accustomed to or the better civilization we hope to achieve.

Possibility of International Control

THE significance of the efforts to find a workable plan for the international control of the materials of atomic energy and of outlawing atomic bombs lies not in the fact that it is the worst or the only means of mass destruction but in the fact that, of all those means, it is probably the easiest to subject to international control. If such control could be achieved with respect to atomic bombs, there is some prospect that the means of doing so could be expanded or adapted to the control of other means of mass destruction. The control of bombs is not the end but only the beginning. One must remember that control of chemical or biological means of warfare would be far more difficult and that if control of the bomb is not feasible, there is little hope of any control being established.

The reason for this is that to make



Power of Atomic Bomb

"THE [atomic] bomb's blasting power is enormous, many times that of the largest bombs heretofore made. Terrible as this is, its auxiliary effect in burning people and materials that are inflammable and its radiation effects seem to be even more terrible. It is these which most clearly distinguish the atomic bomb from other explosive agents."

atomic bombs requires the use of immense amounts of material before the minute quantities of the explosive isotopes of uranium can be extracted. To accomplish this extraction or to manufacture plutonium in substantial quantities requires immense plants. Even though with further engineering their size could conceivably be much reduced below those which were first constructed at Oak Ridge and Hanford, it seems probable that large-scale plants would always be needed. Moreover, enormous amounts of power are required to operate such plants. Finally, the intense radiations of alpha, beta, and gamma rays and neutrons are not only readily detectable by appropriate instruments under many conditions but require the most elaborate protective construction and precautions. Compared with the manufacture of

most items of armament or of chemicals or biological means of warfare, these characteristics of the production of chain reacting isotopes and plutonium are relatively easy to detect by inspection and by associated accounting for the use of certain materials and of power.

THE elements of the plan for the international control of the production of atomic energy, prepared by the State Department's board of consultants and adopted by the administration and Mr. Baruch as a basis for the negotiations in the Atomic Energy Commission of the United Nations, comprise the following features: First, it provides that an international authority must have the right to control the raw materials, uranium and thorium—the only ones as yet usable in produc-

PUBLIC UTILITIES FORTNIGHTLY

ing chain reacting atomic isotopes. Second, it provides for the United Nations' ownership and operation of all plants producing explosive materials or materials susceptible of being used to produce atomic explosives. It provides in principle for the location of such plants in such a way that no nation electing to seize one of them would thereby acquire an advantage over other nations.

THE plan also provides for control by license and by other means of the national and private use of nondangerous fissionable materials and of small production facilities not large enough to permit the accumulation of dangerous quantities of materials. It provides that the organization having control shall continue research in the development and use of atomic energy materials not only for the purpose of enhancing their usefulness for peaceful purposes but also so that the international organization can always be in a position of superior knowledge in this field, facilitating its work of effective inspection and control. Finally, the plan depends upon both the right and the organizational capacity of the international authority to inspect in any country in the world mining and industrial operations in order to detect illicit operations with atomic energy materials.

There are those who seem to believe that we should be able to attain the international control of atomic energy without paying for it and who think that particularly the United States and perhaps Great Britain and Canada, who were our partners in the development of the atomic bomb, should be able to do so without giving up any-

thing except the right to use the atomic bomb. There are others who think we should relinquish nothing of the preferred position we have in the immediate present except under conditions that would absolutely guarantee that no other nation should be able to develop atomic bombs in sufficient numbers to be dangerous.

THESE attitudes appear to be quite unrealistic and dangerous. There is little possibility of establishing any means that would give such absolute guaranties, nor is there the possibility of achieving any plan which does not require us to give up something more than the bomb itself. We dare not relinquish our present position except under conditions which insure the possibility of adequate inspection and control, and we cannot ask that of other nations without ourselves also submitting to the same conditions. This means that we and all other nations would have to part with a small part of that thing called national sovereignty to the extent necessary to control the bomb in the interests of all. Those who object to doing this seem to make as their objective that we shall win the wars in which we may become engaged and nothing more. Let us assume that we shall always win our wars. It will still remain, it seems, that the winner in modern war will also lose. The destruction which the wars of the future will impose on winner and loser alike is likely to make the question of who wins of little consequence. More than all, those who take this independent and isolationist position do not sufficiently envisage the peacetime consequences of failure to establish international control of atomic energy.

DECENTRALIZATION—DEFENSE AGAINST "ATOMIZATION"?

IF unhappily, we should definitely discover that it is impossible to secure a workable international agreement for the control of atomic energy; we shall begin with increasing energy to speculate on whether or how soon other nations will have the secret and will be engaged in the production of atomic explosives. It will not be long before we shall first fear and then be certain that other nations have this means of destruction. By that time we shall be certain that though there is no defense against the atomic bomb, it is

at least possible for us to reduce our vulnerability.

Thus, three conclusions seem warranted. First, decentralization of population and industry as a defense would be as disastrous to our economy by its own chain-reaction methods as the bomb itself would be to the people of the country. Second, there appears to be no defense against this instrument of warfare which other countries soon shall possess. Third, international control may prove impossible, but it is the only hope.

Taxes Felt by All

"ALMOST every American family has felt the pinch of higher taxation in greater or lesser degree. But there has been one social advantage in broadening the base of the personal income tax. It has brought home to many millions of people who were never in the habit of paying taxes in the past the painful but inescapable fact that more money in the pockets of government agencies means less money in the pocketbooks of individual citizens. It has taught, or should have taught, the useful lesson that bigger and more expensive government is not something that can be paid for by a few wealthy men or corporations.

"The brilliant Russian historian Klyuchevsky used the phrase, 'The state swelled and the people shrank,' in describing the increasing power and centralization of Russian Tsarism. This same phrase is applicable, in a milder way, to the worldwide modern trend in the direction of constant expansion of state activities. Some of the new functions and activities of government agencies are doubtless useful, even essential. But a point that is often overlooked is that these activities must be paid for, and can only be paid for out of the individual earnings of the people.

"The broadening of the base of individual taxation was a most useful object lesson in this connection. It brought home to the proverbially sensitive pocketbook nerve the very important point that economy in government is money in everyone's pocket. It constituted a practical argument for the desirability of public economy as against the many individual pressures that will always work for some form of public extravagance."

—WILLIAM HENRY CHAMBERLIN,
Writing in *The Wall Street Journal*.



Utility Coöperation With the Co-ops

A description of a new contractual approach to the problem of wholesale supply by a public utility company in view of the increasing demands of its REA coöperative consumers.

By SUTHERLAND DOWS*

PRESIDENT, IOWA ELECTRIC LIGHT & POWER COMPANY

WHAT to do when the capacity requirements of a group of REA coöperatives become a burden on the utilities supplying them at wholesale has become a common problem to utility management. Not so common is a promising solution of this problem which was jointly arrived at by the REA and a privately owned Iowa utility. This agreement, the first of its kind in the United States, has attracted considerable attention since it became known through news reports in the trade press.

To determine the thinking behind the decision of the Iowa Electric Light & Power Company to enter into this unique arrangement, PUBLIC UTILITIES FORTNIGHTLY has asked the company for a review of the considerations which led up to the signing of a formal agreement.

*For personal note, see "Pages with the Editors."

MAY 6, 1948

In the first place, company officials point out, there is at least a moral obligation for a utility to provide facilities to meet the growing demands of its customers. The REA wholesale contracts presented something of a special problem, however. These contracts were taken at relatively low rates based on then available surplus capacity built before construction costs reached their present high levels.

In the case of the Iowa Electric Light & Power Company serving some nine REA Coöperatives, their load growth became so rapid that the total REA load became a substantial part of the company's total capacity. To build new generating facilities at present costs to serve this low-rate business could not be justified. Two alternatives suggested themselves—either the REA could build and operate its own generating facilities or it could finance the construction of facilities to be op-

UTILITY COÖPERATION WITH THE CO-OPS

erated by the company as an integral part of its system.

A possible third alternative was examined wherein the REA would lend the money to the utility for the construction of the plant. Some legal difficulties were encountered on both sides as the REA felt that under the law it was restricted in making loans to other than coöperatives, and the company foresaw some difficulty in accepting such a loan under its trust indenture. As a result the direct loan scheme was abandoned as impractical.

THE first alternative presented some obvious difficulties. In the first place the Iowa coöperatives affected were reluctant to get into the power-generating business, since it was a business with which they were wholly unfamiliar. To serve the coöperatives, presently being supplied by the company, would require the construction of an expensive transmission system which would largely parallel the existing system of the utility. Apparently the REA had arrived at the conclusion that it was not economical to continue to construct relatively small Diesel plants to serve small rural areas and it looked with favor on the construction of a relatively large high efficiency steam-generating station serving a larger group of rural customers.

The other alternative of constructing a plant and turning it over to the utility to operate and for it to transmit energy to various co-op substations on the existing transmission facilities seemed to present opportunities for economies that would be mutually advantageous. Naturally, both sides approached this idea somewhat warily and prolonged negotiations ensued before

an agreement was worked out which was mutually satisfactory.

THE plans, as worked out, call for the initial construction of a 20,000-kilowatt steam-generating station with the REA financing all cost of construction and design. The station would be located near Cedar Rapids and tied in with the utility's main 115,000-volt transmission system which now runs from Cedar Rapids to Marshalltown and is currently being extended to Boone. The plant would be operated as an integral part of the company's system. It is to be built according to ASME preferred standards, and the company has the right to review all matters of design as they may affect the operation of the station as a part of the company system.

The company will furnish the personnel and operate the station. The contract guarantees a station heat rate not to exceed 13,000 BTU per kilowatt hour. An advantage to the utility would be the availability of a substantial part of this capacity for approximately ten months out of the year and the company would thus obtain a large number of kilowatt hours at the 13,000 BTU rate against a higher rate from less efficient stand-by and reserve generating equipment of the company. It is estimated that 100,000,000 kilowatt hours will be available to the company after the second 20,000-kilowatt unit is installed.

IN addition to this advantage the utility is to be paid a wheeling charge for transmitting energy to the various REA substations which reduces the utility's net cost of transmitting electrical energy.

The contract has a number of un-



Capacity Requirements for Electricity

“WHAT to do when the capacity requirements of a group of REA coöperatives become a burden on the utilities supplying them at wholesale has become a common problem to utility management. Not so common is a promising solution of this problem which was jointly arrived at by the REA and a privately owned Iowa utility.”

usual and interesting provisions, some of which have been summarized as follows:

The REA plans contemplate the installation of a second 20,000-kilowatt unit almost immediately upon completion of the first unit in order to meet the estimated load growth of the REA coöperatives. In the event that the second unit is not installed in time to meet the growing demands of the eight coöperatives involved, provision is made for a demand charge of \$12 per kilowatt year for capacity used by the REA over and above the surplus capacity the REA plant may have furnished to the utility for a like period. This charge is in addition to the regular energy costs which are billed by the company to the Central Iowa Power Coöperative and rebilled by it to the eight participating REA coöperatives.

The operating contract may be canceled after five years, but the trans-

mission contract runs for a period of thirty-five years, with no cancellation provision.

IN addition to the generating facility, the REA will build a 115,000-volt transmission line between Boone and Grand Junction, a distance of about 18 miles, and will construct a substation at Grand Junction. The REA will also build 115,000-volt transmission lines between Cedar Rapids and Hale, and between Cedar Rapids and Coggon, a total of about 57 miles. These line extensions will become an integral part of the utility's transmission system and it will in turn pay the REA a transmission charge for company energy moved over the REA lines.

In addition to the high-voltage transmission line, the REA will construct several extensions to the company's 33-kilovolt distribution system to serve other REA substations.

UTILITY COÖPERATION WITH THE CO-OPS

During the negotiations concessions were naturally made by both sides but the utility feels that the final agreement will be mutually advantageous. The territory served is roughly a strip 40 miles wide and 160 miles long extending from east to west through central Iowa. In this area the company serves some 127 cities and towns and 7,500 rural customers from its own lines, in addition to serving at wholesale the 8 REA coöperatives which have formed the Central Iowa Power Coöperative, and the Amana Society, an REA coöperative, that elected not to enter into the power coöperative but to retain its present wholesale contract.

IN summarizing their thinking on this project, officials of the Iowa Electric Light & Power Company emphasized that their decision was based on a set of conditions which may not obtain in another area. For one thing they have had ten years of friendly relations with the participating coöperatives.

Important advantages such as obtaining reserve capacity without cost undoubtedly accrue to the REA under the contract. On the other hand, the company will substantially increase its net income and will continue to be the principal source of electric energy throughout its area.



Management's Duty to Speak Out

"MANAGEMENT today is not doing an adequate job of showing labor the hopeless futility of an upward spiral of prices and wages—the balance sheet of strike economics; the number of weeks, months, or years at increased wages which are necessary to recover the wages lost by hasty strikes.

"The trend toward government control of industry is either evidence that industry has temporarily failed to do what the people expected of it, or is a basic evolution of human institutions destined to modify our concepts of private enterprise. It must be one or the other; the tendency is too long continued and widespread to be the work of despots or conspirators.

"If this trend is basic, industrial leadership must choose between sincere effort to operate under modified legal and economic rules or a futile battle against the tide. If this trend is only an evidence of the failure of industry to meet its current responsibilities, then industrial leadership can and must correct the situation."

—WALTER MITCHELL, JR.,
Vice president, Irving Trust Company.



The Vexing Colorado River Water Supply Problem

The controversy, foreshadowed in 1919, as to the respective rights of the interested states in the Southwest's "last water hole" continues. The situation as an Arizonian views it.

By BEN AVERY*

"ARIZONA is afraid to let the U. S. Supreme Court adjudicate its rights in the Colorado river!" That is the cry California is using today in its efforts to block further development and use of Colorado river water in all other states of the basin until it can put the water to use and—it hopes—thereby gain the so-called right of "prior appropriation."

The so-called proposed Arizona-California suit is not that at all. Every state in the basin is named in the resolution introduced by Senator Pat McCarran of Nevada to authorize that suit, and competent water attorneys have estimated it would take at least twenty-five years for a special master to establish the claims of all of the seven

states and submit them to the court for adjudication.

Because the Colorado not only is the Southwest's last "water hole," but also is the only major source of hydroelectric power, the basin states other than California contend such a suit would stifle the progress and growth the war so generously started.

That sounds like Californians are defeating their own purpose; but that isn't exactly true. A certain small group in Imperial valley is misleading the citizens of that great state.

With California oil fields drying up—imported oil already costing \$2.35 per barrel—where will California obtain the power to keep her industrialization program going? Certainly not from the Colorado river if it is tied up in a lawsuit for the next twenty-five years.

*For personal note, see "Pages with the Editors."

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THE VEXING COLORADO RIVER WATER SUPPLY PROBLEM

Let us analyze this situation from the standpoint of facts—facts certified not only by Arizona, but also by New Mexico, Colorado, Utah, and Wyoming, and by the best engineers and attorneys of those states.

THE first semblance of a controversy developed over the Colorado river in 1919 when Imperial valley interests sought legislation to authorize construction of a flood-control dam. This was a serious need to prevent recurrence of the disastrous floods of 1905 when the Colorado river broke over into Imperial valley and created the Salton sea, threatening the entire valley with inundation. The Upper Basin states, where most of the Colorado's water originates, wanted protection of their right to use their own water, and California recognized that unless the opposition of those states was dissolved she would get no dam. Consequently, Congress passed a bill authorizing the seven states to enter into a compact for division of the water of the river.

After much negotiation, with Herbert Hoover, then Secretary of Commerce and widely known Californian, serving as chairman, a compact finally was agreed upon at Santa Fe, New Mexico, in 1922. It did not, however, accomplish a division among the states, because it was impossible for the states to reach agreement. The best it accomplished was a division of the basin into two parts, the Upper Basin and the Lower Basin, and the allocation of a fixed amount of water to each, or at least what was thought to be a fixed amount.

As far as the lower basin was concerned this allocation amounted to a

limitation on its use of Colorado river water. The Lower Basin consisted of Arizona, California, and Nevada. The compact also made this limitation a fixed amount because it committed the Upper Basin states to guarantee to deliver to the Lower Basin 7,500,000 acre-feet annually at Lee Ferry, or 75,000,000 acre-feet every ten years.

THE compact also allocated 7,500,000 acre-feet annually to the Upper Basin. Framers of the compact thought this to be a fixed amount, but they did not take into consideration the fact that the river's flow might be less than 75,000,000 acre-feet in any 10-year period. We have, however, just gone through a 10-year period when the flow was considerably less.

In addition, at the insistence of Arizona, the compact also allotted an additional 1,000,000 acre-feet to the Lower Basin to protect the users of water on the Gila river. This 1,000,000 acre-feet was the estimated virgin flow of the Gila where it emptied into the Colorado river before any irrigation along its desert valleys.

The framers of the compact estimated the safe annual flow of the Colorado river at 19,000,000 acre-feet. They did not take into account the already long period of overgrazing and timber cutting on the watersheds, nor the vagaries of drought. They believed that development and use of water necessarily would be slow and that not more than 7,500,000 acre-feet would be put to use in the forty years following their decision, and that thereafter the remaining water could be divided among the states. So they included a provision that all surplus water should be divided after 1963.

PUBLIC UTILITIES FORTNIGHTLY

Six of the states almost immediately ratified the compact. The seventh, Arizona, did not. Arizonians, predominantly southerners, were strong state's righters. They had millions of acres of fertile desert lands awaiting water. They feared what California might do to them in a division of water because of California's larger population and greater voting power. So the Colorado became a political issue. A candidate for governor directed the filing of applications to appropriate the waters of the river with the state water commissioner, and on the basis of those filings made a successful campaign for reelection.

Other politicians immediately took the cue. Even candidates for justice of the peace and constable for twenty years expounded at great length their views concerning the Colorado river.

ARIZONA could not, however, stop enactment of the Boulder Canyon Project Act, the statute authorizing construction of Hoover dam, the All-American canal, and other works in California.

However, Arizona's Senators, after a filibuster, did succeed in amending the act to provide that it would not become effective until a compact was agreed to by the three Lower Basin states dividing their share of the water among them; or, as an alternative, until California's legislature passed an

act limiting that state's use of Colorado river water forever to 4,400,000 acre-feet plus half of any surplus allocated to the lower basin after 1963.

California, Arizona, and Nevada could not get together on a tristate compact, so California chose the alternative provided in the Boulder Canyon Project Act, passing the self-limitation bill. Immediately afterward, Herbert Hoover, then President, proclaimed the act in effect and construction of Hoover dam started within a few months.

The Imperial valley people and the Los Angeles interests, seeking to insure a 50-year supply of water for that growing metropolis, quickly began negotiations for contracts for water.

They, however, wanted more than the 4,400,000 acre-feet. That was the reason Arizona, California, and Nevada could not agree on a tristate compact. They wanted Arizona to divvy up the 1,000,000 acre-feet allotted to the lower basin to cover Gila river water, which long since had been appropriated and put to beneficial use. This Arizona would not do. So they got Ray Lyman Wilbur, another Californian and Secretary of Interior, to give them a contract for 4,400,000 acre-feet and another contract for 962,000 acre-feet of surplus water. The other basin states consider this illegally dipping into the water, if any, to be allocated after 1963.



Q "THE Upper Basin states, where most of the Colorado's water originates, wanted protection of their right to use their own water, and California recognized that unless the opposition of those states was dissolved she would get no dam. Consequently, Congress passed a bill authorizing the seven states to enter into a compact for division of the water of the river."

THE VEXING COLORADO RIVER WATER SUPPLY PROBLEM

Now to get back to the strategy whereby certain Imperial valley interests are seeking to lead their state to its downfall. The backbone of that is the California Priorities Agreement engineered by Imperial valley.

The first three priorities, totaling 3,850,000 acre-feet of water, go to Imperial valley, the Palo Verde Irrigation District, and the California portion of the Yuma valley.

Next comes the Metropolitan Water District and the city of San Diego with priorities for 1,212,000 acre-feet.

Then lastly another 300,000 acre-feet for Imperial valley and Palo Verde.

Simple addition will prove quickly that these first three priorities of 3,850,000 acre-feet do not leave enough water out of 4,400,000 acre-feet to which California is limited to supply even half of the municipal priorities of 1,212,000 acre-feet that come next. By that simple expedient Imperial valley enlists the huge population of the coastal plain as an ally in its fight for more water. Under western water law and the Colorado River Compact municipalities come first, but that law is not followed in the California priorities agreement for a reason.

IN those early days no attention was given to the fact that in storing or carrying water in canals there are certain losses—seepage and evaporation. Californians were annoyed when they learned that the approximately 800,000 acre-feet of evaporation loss annually from Lake Mead, which was created by the Hoover dam they built, had to be charged to someone.

They were also put out when it was suggested that river losses through

evaporation and seepage had to be charged to someone. None of these losses can be charged to California, they said.

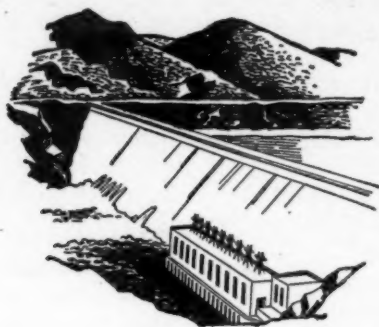
The other basin states think differently. They feel that such losses should be charged ratably to each state in proportion to the benefit that state derives from each project.

CALIFORNIA'S attitude first manifested itself in connection with the Mexican Water Treaty. In 1944, when the treaty was ratified Mexico was using in excess of 1,800,000 acre-feet of water annually. Under the doctrine of prior appropriation and use she easily could establish right to that much water. And lying along the delta of the now controlled river was sufficient land to enable her to rapidly increase that use to 3,000,000 acre-feet.

The treaty, in limiting Mexico's rights to Colorado river water to 1,500,000 acre-feet, therefore, actually took 300,000 acre-feet of water away from the sister republic—a good deal for the Colorado river basin states and all of them recognized it as that, except California.

Why?

Originally Imperial Valley Irrigation District not only served Imperial valley but also the Mexican lands below the border. Then came the Mexican confiscation program. The directors of the Imperial Valley Irrigation District were notified they must dispose of their holdings to a Mexican company. So what did they do? They organized their own Mexican company, transferred the Mexican properties to it, and went right ahead doing business. The Mexican treaty would greatly curtail that business.



Hoover Dam

“CALIFORNIA, Arizona, and Nevada could not get together on a tri-state compact, so California chose the alternative provided in the Boulder Canyon Project Act, passing the self-limitation bill. Immediately afterward, Herbert Hoover, then President, proclaimed the act in effect and construction of Hoover dam started within a few months.”

HOWEVER, it would also curtail something else. The All-American canal was built to 10,000 acre-feet capacity from Imperial dam to Pilot Knob wasteway, just across the river from Yuma where the Alamo canal takes off to serve Mexico. Here the All-American canal's capacity was reduced to 7,300,000 acre-feet capacity to carry water on into Imperial valley. It could drop 2,700,000 acre-feet 40 feet down into the Alamo canal, a beautiful setup for a power plant. Only a few months before the Mexican treaty was ratified by the U. S. Senate, the Imperial Valley Irrigation District applied for a PWA loan of \$12,000,000 to build the Pilot Knob power plant, and proposed, as evidence of security, to sell the water used in the plant to Mexico for \$1 per acre-foot.

MAY 6, 1948

Of course the treaty blocked that plan because it provides that the International Boundary Commission shall have ownership and control of the All-American canal to and including Pilot Knob wasteway, but not one of these arguments did the Imperial valley people use publicly against the treaty. They contended the treaty gave away United States water to Mexico. Never once did they observe that it actually cuts Mexico's use of water 300,000 acre-feet annually. The people of Los Angeles and other coastal cities have been persuaded that the treaty was robbing their last water hole.

THIS same complaint now is being used against Arizona. Actually today Arizona is using only about 300,000 acre-feet of water out of the main

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THE VEXING COLORADO RIVER WATER SUPPLY PROBLEM

stream of the Colorado. In addition to that, Arizona is using and for many years has been using all of the Gila waters, which never contributed more than 1,200,000 acre-feet to the main river.

On the other hand, California is using less than 3,500,000 acre-feet of its 4,400,000 limitation. The remainder, from 8,000,000 acre-feet upward, depending on the flow, goes on down the river into the Gulf of Lower California—wasted. And of the 3,500,000 acre-feet California is taking out of the river—1,150,000 acre-feet flows into the Salton sea—wasted.

The Metropolitan Water District, which is echoing the "You're robbing our last water hole" cry of Imperial valley, has had its aqueduct in operation ten years, but never has pumped more than 50,000 acre-feet a year through it, despite the fact it is designed to carry 1,100,000 acre-feet a year.

Arizona, California says, is using 2,300,000 acre-feet of Gila river water a year, and added to its use of 300,000 acre-feet out of the main stream of the Colorado, plus 600,000 acre-feet allotted to the new Gila project, it is using more than its share of Colorado river water.

But where does Arizona get the water it is using? It all doesn't come out of the Gila—much of it comes out of wells, many of them far from the Gila and many of them from depths below sea level.

CALIFORNIA calculates Arizona's ground water as Colorado river water, contending that under the compact all water within the basin is part of the Colorado river system. The

figuring serves California well because only a microscopic strip of that state east of the Sandhills of Imperial valley, is in the Colorado river basin. And that area contributes neither surface flow nor ground water to the total supply in any measurable quantity.

All other basin states disagree with California on this. They contend the Upper Basin, in its right to use 7,500,000 acre-feet of Colorado river water, is entitled to deplete the flow of the river at the division point by that amount. And they contend the Lower Basin, in its allotment of 8,500,000 acre-feet, is entitled to deplete the flow of the river at the Mexican border by that amount. In other words, they contend that if the water is put on the land and part of it returns to the stream, that part can be taken out and used again until it is consumed.

The other basin states, from experience, know that the amount of water in the Colorado river will depend upon the storage facilities available to catch and hold peak floods until the water is needed. In the Upper Basin such storage is essential if those states, which contribute 80 per cent of the river's water, are to plan and build projects to use their 7,500,000 acre-feet because in dry years the river drops as low as 5,000,000 acre-feet and they are required to deliver 7,500,000 acre-feet to the Lower Basin; but if the river is tied up in a lawsuit no dams can be built until the lawsuit is settled—no water can be stored if no dams are built—and progress will be stifled.

THESE are the reasons all of these states, Arizona, New Mexico, Colorado, Wyoming, and Utah, have

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joined to fight against a lawsuit. They feel that California should join them because California already faces a serious power shortage and no dams can be built to generate power if such a suit is instituted.

The only victor in such a situation would be Imperial valley. The Imperial Valley Irrigation District could go ahead diverting water through the All-American canal.

In twenty-five years it could increase its use to maybe 6,000,000 acre-feet annually because the All-American canal will carry a peak of 7,300,000 acre-feet.

Then Imperial would rely on the weight of California's big population to prevent the United States from taking any of that water away from it—the cry would change to: "You can't dry up our farms!"

Flat on Our Flat-bottoms

"**I** REGRET to report, fellow proprietors of the Inland Waterways Corporation, that we aren't doing so well with our temporary 30-year-old steamboat line on the Mississippi.

"Our barges are leaking and all our towboats—except the HARRY S. TRUMAN—are hulks of clanking junk. There is some doubt whether the ship HARRY S., being built at a cost of \$1,400,000, is any good for navigating the Father of Waters. Some experts claim she (he would sound better) needs a different kind of innards and a better-shaped snout.

"What brings up these melancholy reflections is the fact that our temporary steamboat business has been temporary so long now that—according to Representative Alfred L. Bulwinkle of North Carolina—it's doggone near permanent. And costly? Whoohie!

"We tax-paying Mark Twains so far have sunk around \$28,000,000 into this enterprise. It has lost money ever since it started. The Commerce Department, which holds the stock in the corporation, wants to sink \$18,000,000 into patching up our boats. And, said Under Secretary of Commerce William C. Foster, the government wants to sell its barge line as soon as possible.

"Representative Bulwinkle sighed. For a generation now he said he's been hearing other Under Secretaries say the same thing. But more millions go down the drain, the barges get leakier, and the steamboats junkier, and the sale always looks like it'll be made in about two more years.

"Representative Charles A. Wolverton of New Jersey, the kindly, white-haired chairman of the Interstate and Foreign Commerce Committee, took over the questioning of the fidgety Foster. He didn't want to be unfair, he said, but the statements of all the privately operated barge lines indicated they'd paid millions in taxes, both state and Federal. And how much in taxes, he asked, did the Inland Waterways Corporation pay in the decade beginning in 1936?

"'One hundred and two dollars,' said Foster, reading the figure from a chart.

"This money went to the city of Memphis, Tennessee, for some real estate and, said Representative Wolverton, apparently is all the taxes our steamboat company ever paid anybody. Some committee members wondered whether the management—present company excepted, of course—consisted solely of dopes?

"Foster didn't know about the old-timers in this elderly temporary corporation of ours, which Congress told to go out of business in 1942. He did know only that Captain A. C. Ingersoll, the present boss, is a mighty efficient operator. Only he's been confronted with assorted disasters ranging from acts of God to acts of John L. Lewis. The latter's coal strikes were particularly rough on our steamboat line."

—FRED OTHMAN,
Columnist.



Public Corporations in Britain

How the capital for them is supplied and how they are controlled and managed—study of forms and types of organizations.

By LORD KNOLLYS*

MOST countries are faced at some time or other with the problem: How can we best run great industries, which it is desirable the state should control, and adequately develop them in the national interest? And where there is a monopoly, how can we best protect the interests of the public?

The answer to this problem varies in different countries. In some, undertakings are directed by a department of government, such as the post office in Britain or certain railways in Europe; in others, the state has some financial interest in the business and appoints two or three representatives to the board of directors, as in several industries of Sweden or Belgium, for example.

The public corporations in Britain are a typically British product—a compromise between state management and private control of industries which

are in the nature of public utilities. They are designed to combine state ownership of the capital with the best features of management by private enterprise. Their setup is to some extent experimental: Changes in their structure are made in the light of experience. Parliament and the British public are gaining quite a lot of experience, for there has been considerable nationalizing of great industries in the last two years.

Before the war, public corporations had been set up for generating electricity, for broadcasting, for London's transport, and for overseas airways. Since the war, nationalization has been applied to the Bank of England, the coal industry, cables and wireless, electricity supply, and the whole of Britain's transport, railways, road transport, canals, and docks. The gas industry is to be nationalized shortly.

There has also been set up a Colonial Development Corporation, with powers to develop production in the British

*Formerly chairman of British Overseas Airways Corporation.

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Colonial Empire, in order to promote the welfare of the Colonial people. This and the three airways corporations and cables and wireless operate overseas; the other public corporations are internal and are monopolies.

IN only a few cases—for example, the British Sugar Corporation and Anglo-Iranian Oil—has the government taken a limited shareholding, with directors representing it on the board. Here we differ from practice in Europe, where several countries prefer this method. Recent British practice has been to combine complete ownership with the appointment of a board of outside men of affairs, rather than politicians or civil servants, to operate and manage the industry.

In the case of each of those I have mentioned, the state owns and supplies the capital; in most instances the corporation is authorized to charge the public sufficient to balance its accounts; in some a deficit is met by the Treasury. The general practice is for each to be controlled by a board of directors appointed by the responsible minister. These directors are chosen for their industrial, financial, or administrative qualities. In some cases, such as the coal board, all the members of the board are whole-time; in most there are a number of part-time directors of proved business and administrative ability. For better or worse, there are no government officials as such in controlling positions, though a few distinguished former civil servants have been appointed to the boards of these corporations.

But though these great undertakings, employing huge staffs, are owned by the state, the employees are not civil

servants, and I can assure readers, from my own experience, that these employees do not look upon themselves as civil servants. They look primarily to their own boards of directors; their immediate loyalty is to their own organization working for the public. They are taken on and dismissed by the management—hired and fired, as we would say; their rates of pay and conditions of service are settled within their own industry by negotiations between the managements and the trades unions concerned in the particular industry. Employees are not on the boards—though some heads of departments may come to be—but in every case one person is appointed to the board of directors for his personal experience in labor affairs—usually a former leading trades unionist.

THE most interesting feature of the development of British public corporations is the way every government, Conservative or Socialist, has tried to find a way to let these corporations manage their own affairs, to give them power to run the day-to-day business without interference from the minister. It is the minister's duty and power, imposed by Parliament, to be generally responsible for the broad objectives and for the efficiency of these corporations which serve the public.

Here is the big problem which has not yet been satisfactorily or finally solved. We are still groping towards finding the happy mean between proper responsibility to Parliament, through the minister in charge, and the freedom from constant questioning, from interference in day-to-day management. For without this freedom no business undertaking run by men of business (as



Nationalization of Utilities

"BEFORE the war, public corporations had been set up for generating electricity, for broadcasting, for London's transport, and for overseas airways. Since the war, nationalization has been applied to the Bank of England, the coal industry, cables and wireless, electricity supply, and the whole of Britain's transport, railways, road transport, canals, and docks. The gas industry is to be nationalized shortly."

these should be) can ever be successful.

There is a new technique to be found to fit new conditions and this new kind of animal which our British public corporation is.

Parliament, representing the public who own the business and for whom it exists, must be able to have an accounting of how well its money has been spent, how efficient its efforts have been. It must be able to remove inefficient boards of directors. Any stockholder is entitled to that. At present it exercises its control in several ways. Members of Parliament can put questions to ministers, so long as they are on points of broad policy—not of routine internal administration. Debates on the work of the corporations can, and do, take place in either the House of Lords or the House of Commons at any time. In addition, a forecast of public funds required for a corporation goes before the Estimates Committee of the House of Commons.

The annual accounts of the financial results of a year's working are reported to the Public Accounts Committee of the Commons, on which private members of Parliament sit.

BUT Parliament and the government have not yet made up their minds just how much discretion can be left to these boards. In a recent debate in the House of Lords, I myself suggested that proper parliamentary control should be exercised through a full examination and discussion of the year's results by the Public Accounts Committee I have just mentioned, followed, if necessary, by a debate. This would correspond to the annual general meeting of stockholders of an ordinary company.

That is what Parliament and its members are for this purpose—representatives of the stockholders of these corporations, the public of this country.

This scheme would give Parliament

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reasonable control and knowledge, and avoid constant debates and probings—rather like frequently pulling up plants to see how they are growing. In the last resort, if Parliament and the minister are not satisfied with the management or the results of the business, they can always get rid of the board or of the man at the top, provided a reasonable chance to make the show work has been given to those who are in charge.

Nationalization of many industries is here to stay in one form or another,

for or worse, in Great Britain as well as in other countries. These corporations must be made to work. Out of what we learn of the various forms and types of organizations which are now being tried out here, a pattern will emerge, shaped through long experience of different forms of our own successful public administration—a pattern which will not only make these public corporations work well in Britain, but may act also as helpful examples and be useful in other parts of the world.

Where the River Shannon Flows

“ONE of the major objectives toward modern Ireland's economic emancipation is development of electrical energy. Within three years the Irish expect to produce a billion kilowatt hours a year.

“Twin programs are under way aimed at freeing this little country from dependence on uncertain coal supplies from England. One is the production of electricity through harnessing rivers and the other by burning up peat bogs which abound on this wet, spongy island.

“Use of electricity is growing at a rapid rate. Consumption rose from 43,000,000 units in 1930 to 453,000,000 last year. Part of the rise was due to increased motive power for Ireland's budding industries. The billion kilowatt goal is necessary for completion of an ambitious rural electrification program.

“Hydroelectric development began under the Cosgrave government with the first Shannon scheme and has been carried on vigorously by de Valera. This water-power plant produced an average of 287,000,000 units a year, or the equivalent of 860,000 tons of coal that would have to be imported from England.

“De Valera's government has started a second Shannon scheme. A dam has already been built where the Erne river flows into the Atlantic at Ballyshannon. When this power plant goes into operation it will manufacture 210,000 electrical units annually. In addition the government has harnessed the Liffey river outside Dublin and put several other streams to work producing electricity.

“Casting about for other resources, the government decided to dig into its peat bogs for the production of electrical energy. Peat, or ‘turf’ as the Irishman calls it, evolved from the old forests of Ireland which were never under sufficient compression to produce coal.”

—EXCERPT from *Chicago Daily Tribune*.

Washington and the Utilities



Reclamation's Ears Burn

SENATOR Downey (Democrat, California) used a little known local bill (S 299) to extend reclamation laws to the state of Arkansas, as a vehicle for delivering one of the most scathing criticisms of the Reclamation Bureau and its officials that any government agency has been subjected to during the 80th Congress. The significant feature of Senator Downey's tirade was the fact that not a single Senator took the floor to defend the bureau on the issue of the California Senator's denunciation.

Even the author of the bill, Senator Fulbright (Democrat, Arkansas), who accused Downey of filibustering against a local measure for reasons which were not germane to the merits, went on to say that, as far as Downey's criticisms of bureau officials were concerned, they were "perfectly all right with me." The net result was Senator Fulbright's own motion to lay aside the bill, although he regretfully pointed out that it has been on the Senate calendar for a year after unanimous report from the committee.

This, in effect, means that the Reclamation Bureau will be unable to extend its operations into the state of Arkansas—by statutory authority, at least—unless another session of Congress acts more favorably on the measure. It seems to be the consensus that the bill is dead for the present.

DOWNNEY started out his critique by reminding his colleagues that the irrigation work of the West was done "by the pioneers, by the builders, by the people of the West themselves, and not at all by the representatives of the Bureau of Reclamation." Downey had made the

point that less than 8 per cent (of the 20,000,000 acres which have been re-deemed by irrigation in the West) has been brought under irrigation by the Reclamation Bureau. He added that "hardly a single acre" in the state of California out of 6,000,000 acres of irrigated land has been brought under irrigation by the efforts of the Bureau of Reclamation. This includes the great Central Valley project for which, the Senator said, California citizens have been waiting ten years. Elaborating on this charge, Downey continued:

I believe that one of the darkest and most unfortunate days in the history of California was when the Bureau of Reclamation was brought into our great Central valley. We are prepared to show by definite figures that because of the extravagance and waste of the Bureau of Reclamation in the Central valley the cost has been increased by at least one-third. Our farmers will have to pay between \$75,000,000 and \$100,000,000 additional because of the extra cost. I do not know how they are going to pay it. We are now in the position where we have the Old Man of the Sea on our shoulders. I cannot undertake to say what we shall do if the Congress of the United States or the President does not relieve us from this wasteful, parasitical, subversive group. . . .

The Corps of Army Engineers has available substantially less for the operation of its Washington office than has the Bureau of Reclamation—perhaps not very much more than one-half as much. The Army Engineers, with about one-half the sum, oversee between two and two and a half times as much construction work as does the Bureau of Reclamation. The costs chargeable to the Army Engineers in Washington are spread out against the particular projects, but the cost of the Bureau of Reclamation falls directly upon the taxpayer.

Senator Kem (Republican, Missouri) and Downey's Republican colleague, Senator Knowland of California, generally took his side of the debate with

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sympathetic questions and comments. Senator Overton (Democrat, Louisiana) took the floor to urge that the Bureau of Reclamation's authority should not be extended at the expense of the work of the Army Engineers. He said the people of his native state of Louisiana, "despite the efforts of the propagandists of the Bureau of Reclamation," have seen the danger of exposing its drainage projects to a bureau which is "by law confined in its activities to irrigation."

DOWNEY returned to attack particularly the propaganda activities of Reclamation Commissioner Straus and Central Valley Regional Director Richard L. Boke, whose qualifications he attacked as having been misrepresented to Secretary of Interior Krug himself. In the course of the debate was the following sizzling paragraph:

... The Army Engineers are trying to do a physical job of construction as cheaply and efficiently and with as little difficulty as possible to the public. The Bureau of Reclamation is primarily engaged in propaganda. The Army does not compete with it in propaganda, and certainly the Bureau of Reclamation is not competing from the standpoint of efficiency. Figures will be developed showing how very much cheaper the Army work is.

I have been in the Senate for almost two terms. I have never once had the experience of an Army engineer lobbying me to try to get appropriations or personnel, and I believe the distinguished Senator from Louisiana would say the same thing.

About the nearest approach to a defense during this exchange was a statement by Senator Watkins (Republican, Utah) that the Bureau of Reclamation, through all of its history and up until a few years ago, has not been criticized seriously and has functioned to the satisfaction of everyone, including the Senator from California. He added that only within the past four years has there been complaint and, "so far as I have been concerned, only within the last year."

The intrinsic importance of the Arkansas bill hardly warranted such an explosion of senatorial fireworks. Observers were inclined to believe that the incident presages further rough treatment for the Bureau of Reclamation unless and until

it is shaken up or otherwise reorganized so as to remove what seem to be persistently irritating elements to leading figures on Capitol Hill.

Can John L. Lewis Pull the Switch?

ALL through the recent "pension stoppage," speculation was rife over what effect the so-called voluntary lay-off was having on the coal reserves of the electric power industry. Speculation is still rife now that John L. Lewis has been penalized for contempt, and there are rumblings in the coal field that the miners, or some of them, are staying out until John L. Lewis is freed of the shadow of the jail house.

Up until the "pension stoppage" controversy was suddenly settled (through the eleventh-hour intervention of House Speaker Martin and Republican Senator Bridges of New Hampshire), the stocks of electric companies had not fared too badly. As of April 8th shortest supply of any major group of electric companies was about 15 days. The highest was around 100 days' supply, with one company having a rather freakishly fortuitous reserve of 250 days. The over-all average for the electric power companies was around 50 days' supply of coal. Of course, "over-all averages" can be mischievously misleading in such discussions. When a particular power company has consumed its own coal supply, it cannot burn general averages or take any consolation from the fact that some other company somewhere else is better supplied.

As to the net effect of the "pension stoppage," it appears that the electric power companies had on hand an average of about 60 days' supply when the ruckus started. This means a net loss of 10 days' stocks as the result of the strike. Assuming that the miners will continue to dig coal in substantial proportions, regardless of John L.'s personal troubles with the law, these electric utility industry reserves of coal can probably be recovered within two to three months. But

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if the miners stay out or start a new controversy over wages next July, the outlook for continued electric power supply could still become quite critical.

As a matter of fact, the recent "pension stoppage" was even more potentially dangerous than the coal strike of 1947. At that time Secretary of Interior Krug was appointed fuel coordinator and forthwith coal mined was ordered to be held as available stock for allocation before shipment. Thus, although utility companies felt the immediate loss of deliveries in 1947, they were theoretically protected at least by an assured share in the allocation of the reserves if necessary. This year the mined coal was in transit during the strike and continued moving. There was no allocation possible and nobody with authority to do anything about it.

Washington observers are still of the opinion that the "pension stoppage" was simply a delaying tactic on the part of John L. Lewis to reduce the nation's coal pile and put his miners in a better position to bargain over the wage increases when present contracts come up for renewal June 30th. For this reason it may be that the Justice Department will take up any challenge presented by the refusal of the miners to work as a result of the contempt proceeding, rather than let the situation come up again as a new and bigger headache on July 1st.

Candidates on Public Power

As the preconvention campaign of presidential candidates enters the final stretch, those interested in public utilities and their regulation have been reading up considerably on the record of the leading candidates. This is fairly easy in the case of the leading candidate for the Democratic nomination, President Truman, and also for the third party candidate, Henry Wallace. President Truman's record as an advocate of the Tennessee Valley Authority type of development and his endorsement of the Missouri Valley Authority and the St. Law-

rence seaway-power proposal are so well known as to warrant little doubt of the direction he would take if reelected. Wallace stands for all this and much more—if the radical planks in favor of expansion of social controls proposed by his sponsors are accurate indices, and they probably are.

It was among the Republican candidates that questions arose. True, all four of the top primary contestants have announced in favor of the St. Lawrence seaway-power proposal as a long-range proposition. (Senator Taft, in the recent Senate vote on this proposal, announced that he was in favor of the project, but not now.) But this is hardly an accurate test of these candidates' ideas on possible expansion of Federal public power operations. The St. Lawrence seaway, after all, is almost a political "must" for politicians of the middle western Great Lakes states, and Governor Dewey's background as chief executive of New York state is also tinged with regional interest. Hence, it is not surprising to find Stassen, Dewey, Vandenberg, and Taft (but not now) lined up for the St. Lawrence project, with principal emphasis on the seaway features.

A MORE objective test would be the distinction between the so-called "authority" type of public power development, à la TVA, and old-fashioned Federal aid to state type of river basin improvement. In contrast to the Truman and Wallace advocacy of the "authority" idea, it is interesting to note that Stassen, Dewey, Taft, and Vandenberg all are now on record against extending the "authority" type of project planning, particularly to the Missouri river basin. Vandenberg and Taft both have consistent Senate records on this, with respect to various considerations which have come up in the upper chamber, including the perennial bill by Senator Murray (Democrat, Montana) to establish a Missouri Valley Authority.

But neither Stassen nor Dewey were required to take a positive stand on this issue. And the fact that they did so, with

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emphasis, during the hot primary campaigns in Wisconsin and Nebraska shows that, in their astute political judgment, the "authority" type of river development and improvement is not popular with the voters of the Middle West. Governor Dewey took his stand in a speech at Holdrege, Nebraska, April 9th, when he endorsed development of the Missouri river under the proposed Pick-Sloan plan which is now in operation under the principal control of the U. S. Army Engineers. Governor Dewey condemned, in his Holdrege speech, the Truman administration's proposal to establish another 3-man regional authority, such as the TVA. He termed this an act of dictatorship over water and agricultural policies in the eleven states involved.

DEWNEY followed an even stronger statement on this subject by his successful rival in the Nebraska primary, former Governor Stassen of Minnesota, who stated flatly in a speech at Omaha on March 24th, "I am opposed to the MVA method." Governor Stassen went further and outlined a method for administering a complete Pick-Sloan program that would give much authority to the states in the basin. He said:

I believe that the development of the Missouri valley under the Pick-Sloan plan is a wise investment in the creation of new wealth for America and should be carried forward. . . . I believe that our Republican party, to be true to the vigorous and pioneering quality of our country, should make a definite pledge for the development of the Missouri valley in its next national platform.

This pledge should include the investment of Federal and state funds to the extent of approximately \$2.5 billion for the next six years, and a sufficient amount after 1954 to carry out the proposed Pick-Sloan development of this vast area.

I believe that this total investment will create \$20 billion of new wealth in the area.

I am opposed to having these resources administered with an overriding federally created authority. I am opposed to the MVA method. I think it is very important that we should constantly guard against too great centralized authority in this huge country of ours.

The completed Missouri basin program, he said, "can best be administered by the states of the area involved."

MAY 6, 1948

Excise Tax Relief Hope Fades

ALTHOUGH the Federal government is exacting tax revenues amounting to more than a billion dollars a year in special levies on public utility services alone, the outlook for any repeal or curtailment of these high wartime excise taxes continues to grow dark as a result of recent meetings of the House Ways and Means Committee on the subject. Early in April the committee held a closed session to give consideration to a tax revision act scheduled to be reported to the House about May 1st. It had been hoped that this bill would cut out or at least cut down the wartime excise on telephone, telegraph, train, bus, and plane passenger fares, and perhaps even the tax on electric current and some utility appliances.

But Representative Grant (Republican, Indiana), who led an unsuccessful movement in this direction last year and was prepared to do the same this year, was unable to convince his committee colleagues that such an excise tax repeal or curtailment would be practical at the current session, in view of the seriousness of world conditions.

This is believed to be a general concession on the part of the Republicans in the wake of the huge personal income tax slashes approved last month over the veto of President Truman.

A YEAR ago Representative Grant pushed for abolition, or reduction, of the so-called luxury taxes, but his campaign was lost in the general insistence on personal income tax cuts. These slashes were vetoed at that time by the President, and the House failed to override.

As late as April 3rd, Representative Harold Knutson (Republican, Minnesota), chairman of the House Ways and Means Committee, said he thought excise taxes would be altered, with some to be eliminated entirely. He particularly desired a cut in the 25 per cent charges against telephones and telegrams, with the 15 per cent levy on transportation tickets and 20 per cent on amusements coming next in order.

Exchange Calls And Gossip



Toll Call Walls

MRS. BELL lives in a suburb of a large city, maybe just across the city line. She voices objection to paying a toll charge to telephone her husband at the office in the city or to reach the complaint department of a city retail store. This sort of thing is happening in many parts of the country. Such extended areas of what might be called natural local service are becoming somewhat of a temporary headache to many telephone companies.

Rapid expansion of population in outlying sections of metropolitan centers finds the local exchanges in some sections poorly equipped to provide necessary service. There are several reasons. One is that it is no longer practical nor profitable to handle such business on a toll call basis. Also many of the local exchanges are operated on a manual basis rather than by dial systems. Some of them cannot make ends meet under these circumstances. The natural answers to this problem are technical modernization of the exchange and increased rates for the expanded local service.

Building new plant to take care of such situations requires long-term planning and financing. The policy, or lack of it, of regulatory commissions becomes an important consideration. Some progress has been made along this line, most notably in Michigan.

THE Michigan Bell Telephone Company went directly to the state public service commission and requested a declaration of over-all policy upon which the company could rely in its planning for the future. The commission was most cooperative and helpful. In essence, it

declared that the problem was a question which could be answered best by management and that the commission would support the company's judgment, barring of course any irregularities or arbitrary decisions of the company.

The actual words of the commission's decision are of interest. Below are quoted two pertinent paragraphs:

This commission has given most careful consideration to the testimony, and has carefully weighed the respective contentions upon this troublesome subject. It is the considered opinion of this commission that, while it is vested with regulatory powers as an administrative body, there are certain fundamental functions which lie clearly within the realm of management in the conduct and operation of utilities under its jurisdiction, and that, within reasonable limits, it is the proper function and duty of this commission to repose confidence in the sound business judgment and recognition of proper functions of management unless it appears that such prerogative has been abused by management and is against the best interest of the public. When such a situation appears reasonably clear, this commission should not and will not shirk its duty in bringing management into line; but within these limits we feel and believe the questions such as presented by this petition should be determined primarily by management.

We appreciate that the management of the applicant cherishes its relations to its subscribers, and to the public as a whole, and would not propose such a plan if in its sound judgment it were contrary to the best interests of the public for the obvious reason that any other course would lead to dissatisfaction and strained relations between the company and its customers. While we appreciate that in some isolated instances it may appear that inequities will result from the adoption of such a plan, yet we believe it to be a forward-looking step in telephony and that its long-range results will inevitably benefit the public as a whole; that it will vastly improve telephone service in Michigan as well as result in substantial economies

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of operation which under regulation must inure to the benefits of the public.

The second paragraph of the above quotation refers to a plan submitted by the company, which in its petition requested authority to make "effective certain schedules of rates, rentals, tolls, and charges in all its exchanges and zones, and to modify certain rate treatments." The petition embraced a plan for what is called nonoptional extended area service. The commission asserts that the sole question before it is whether or not "extended-area service may be offered by the company and inaugurated upon a nonoptional basis."

CLARIFICATION of the differences between optional and nonoptional treatment may be obtained best from a statement of the commission. It says that "nonoptional extended-area service will result in the integration of neighboring communities into a single telephone community thereby eliminating toll charges for messages between points within each such telephone community and permitting an unlimited number of such messages without any charge over and above a monthly flat rate." The commission further asserts that the nonoptional rate would result in a wider usage of telephone service between neighboring communities, obviating the necessity of considering whether, in relation to its cost, present short-haul service is not being given at preferentially and unreasonably low rates.

In view of these opinions, the commission ordered that the nonoptional extended areas requested by the company be established. No ruling as to rates or charges was considered in this decision.

The same general problem of toll charges for telephone users in 14 suburban Pittsburgh districts now is being considered by the Pennsylvania Public Utility Commission. The Bell Telephone Company of Pennsylvania is defending its rates before the commission. Disputes and conflicts in the Pittsburgh area have existed for a considerable period.

The New England Telephone & Tele-

graph Company has been having the same difficulties in some of its metropolitan centers. Latest development is a decision of the Federal Communications Commission which has granted the company special permission to discontinue message toll telephone rates between certain rate centers in Massachusetts and Rhode Island in the Providence metropolitan area.

Comprehensive Decision on California Telephone Rates

ONE of the most interesting and comprehensive telephone rate decisions has been handed down by the California Public Utilities Commission in its recent grant of higher rates to the Pacific Telephone & Telegraph Company. It is interesting because it is exhaustive and covers so many controversial points. (An earlier note on this case was contained in PUBLIC UTILITIES FORTNIGHTLY, "Progress of Regulation," issue of April 22, 1948, page 588.)

The decision itself was a 74-page document with accompanying appendices of rate schedules which ran the total to well over 100 pages. It contained facts, decisions, and compliments.

Of most immediate importance was the fact that the decision granted a total permanent increase of \$27,550,000 in a statewide rate increase. This was made up of a confirmation of a previously allowed interim advance of \$22,455,000 and a new grant of \$5,100,000 a year. This was generous as compared with a U. S. Treasury recommendation, but it was considerably below the \$40,000,000 requested by the telephone company. The Treasury had recommended a return of slightly over 5 per cent. The company asked 7 per cent. And the commission granted 5.6 per cent.

The commission decided on specific rates in many classifications and localities. For example, it reduced toll rates for medium and long calls in the state. The reason given for this reduction was to bring local toll rates into closer con-

EXCHANGE CALLS AND GOSSIP

formity with interstate toll schedules. Basic residential and business rates in over 400 exchanges were practically untouched. Some small exchanges were given assistance in the form of higher rates. Also advances were allowed for services of teletypewriter, leased telegraph wire, and mobile radio.

Company officials expressed the opinion that the advanced rates were not sufficiently high. The main plea was for high enough earnings to attract additional capital for expansion and improvement purposes.

The case was unique in that there was not much argument about the size of the rate base. The commission complimented the company on its simple and forthright presentation of the case, particularly with respect to the cost of plant and working capital less depreciation reserve. In addition, the decision had a good word to say for independent companies operating in the state. It was mentioned that several of them had converted from a manual to a dial system with success several years ago. "All are now earning adequate returns; all have wage levels comparable to the Bell system, yet all are operating at rate levels materially lower than those sought by the Pacific Telephone & Telegraph Company. In fact, some reductions in rates have been made recently," the commission said. The independent companies were praised for the competition contributed in the form of ideas and results which led generally to new developments for better and more economical service.

IN arriving at a smaller rate increase than the company requested the commission disallowed portions of two important expense items. One was the license fee paid to the American Telephone and Telegraph Company. The regulatory body held that such payments should be on the basis of actual cost of the service rendered to the operating company rather than a flat percentage of gross earnings. Therefore the commission decided on a figure of \$1,843,000 as recommended by its staff rather than the

\$3,075,000 actually paid to the parent company.

Another expense item disallowed involved funds and interest dealing with the company's pension plans. Included was about \$500,000 which the commission claimed represented the accruals for service of employees with other Bell system companies before they were employed by the Pacific Telephone & Telegraph Company.

Regulation for Western Electric?

A CHANGE in the method of treating the profits and prices of Western Electric Company is being considered by the telephone committee of the National Association of Railroad and Utilities Commissioners. Since Western Electric is the manufacturing and supply subsidiary of the Bell system, the prices charged for supplies and equipment become an important element of cost to be considered when state commissions rule on changes in telephone rates.

The 5-man telephone committee, representing the states and the Federal Communications Commission, plans to recommend some change in the Western Electric supply contract. The group expects to complete a formal preliminary report on the question in about a month. The possible treatment of the company as a regulated public utility is being given considerable thought by the NARUC-FCC committee. For example, one idea is to evaluate the plant of Western Electric on very much the same basis as utility operating plants are treated—depreciated cost. Then as a bench mark for the use of state commissioners a fair return on the plant value would be determined. Given this information, each state commission could use its own judgment as to proper costs and charges. No positive legal authority is contemplated. It is hoped that the plan can be established by mutual agreement between all interested parties.

To facilitate the use of such a plan some members of the study committee feel that Western Electric should adjust

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its books to comply with the uniform system of accounts now required of telephone companies by FCC.

Charges of the Bell Telephone Laboratories, Inc. (owned equally by AT&T and Western Electric), also would come into the picture. The general philosophy behind most of these tentative plans is to charge the operating companies for specific costs rather than on a flat percentage fee basis. It is understood that AT&T is cooperating with the telephone committee in its study.

Telephone Engineers Conference

THE chief engineers' committee of the General Telephone System recently held a 4-day conference with executive officers of the system's operating companies. The meeting held in Chicago had as its purpose the formulation of policies on plant and engineering matters. Interchange of views and information was broadened by the attendance of representatives of several manufacturers who discussed problems relating to standards, specifications, and shipping schedules.

The engineers' group was headed by Chairman Dean M. Barnes, chief engineer of Associated Telephone Company, Ltd. Other members are C. E. Jones, H. E. Hussey, and W. O. Trettin, chief engineers representing the Eastern, East-Central, and Central groups of the system, respectively. This committee was formed in July, 1944, at the suggestion of Harold V. Bozell, president of General Telephone Corporation and General Telephone Service Corporation. Executive offices of the groups are located in Santa Monica, California (Associated Telephone Company); Erie, Pennsylvania (Eastern); Lafayette, Indiana (East-Central); and Madison, Wisconsin (Central).

Management executives taking part in the conference were F. E. Norris, vice president of General Telephone Service Corporation; C. C. Whitlock, general plant superintendent of Indiana Associated Telephone Corporation; Thomas

A. Boyd, vice president of General Telephone Corporation and General Telephone Service Corporation; Walter Dakin, Central group manager; L. F. Shepherd, East-Central group manager; and H. M. Strosnider, general equipment superintendent for the Southwestern Associated Telephone Company.

The chief engineers' group has not met at regular intervals in the past, but now it is expected that conferences will be held at about 9-month intervals. The next conference is tentatively scheduled for December of this year or January, 1949.

Pay for Naps

NIGHT telephone operators in not overly busy exchanges sometimes get an opportunity to catch a nap during dull periods. They are entitled to be paid for these naps even at overtime rates if they are working on long shifts. Such is the decision of the U. S. District Court for Western Missouri. The court ruled that the operators working an 11-hour shift on switchboards located in company buildings are entitled to be compensated at overtime rates for all hours in excess of forty hours a week. The Central Missouri Telephone Company had attempted to refrain from paying for two hours per night on the grounds that when calls were infrequent operators were allowed to sleep. The court held that the operators were entitled to pay for such time under the Fair Labor Standards Act. Points made for the operators were: (1) sleeping periods were not long and uninterrupted; (2) operators were not permitted to leave the premises; and (3) they could not carry on any other activity.

The complaining operators were awarded by the court \$3,453.95 in overtime compensation, an attorney's fee of \$1,000, and the cost of the action. They are still employed by the company. There was no written contract of employment. It was only after the employees of the company were organized and contracts between the company and the union negotiated that the question of overtime and undercompensation arose.

Financial News



and Comment

By OWEN ELY

January Electric Earnings Hurt by Drought

REFLECTING continued severe drought conditions, January earnings of the electric utilities made an unfavorable showing as compared with last year, reversing the unexpectedly favorable results for the month of December.

Net income for the month was down 10.2 per cent from last year, compared with December's gain of 11.9 per cent. However, disregarding seasonal factors, January net was only 3 per cent below December's figure of \$62,402,000. Both kilowatt-hour sales and revenues for January exceeded those for December, although the rate of increase over last year was somewhat smaller. Kilowatt sales gained 9.6 per cent and revenues 12.2 per cent, over 1947. Approximate revenues per kilowatt hour for the different classes of service compared with a year ago as follows:

	January 1948	January 1947
Residential	2.89¢	3.02¢
Commercial	2.81	2.84
Industrial	1.09	1.05
Total, incl. misc.	1.62¢	1.58¢

These figures indicate that fuel clause adjustments in industrial rates somewhat offset the decline in residential rates. Incidentally, this decline appeared to be continuing in January, when the residential average dropped to a new low of 2.89 cents compared with 3 cents in December. However, a decline in the residential average does not necessarily re-

flect lower rate schedules, but might result from increased usage of electricity per customer, which would permit customers automatically to obtain lower average rates under old schedules. This might result from the increased use of washing machines, radios, and television sets. (The latter are heavy current users.)

THE major handicap of the utilities in January was the very heavy use of fuel, plus its increased cost. Fuel expense jumped to \$66,205,000, becoming the heaviest individual item in the budget, amounting to three-and-a-half times fixed charges, and exceeding net income. It increased 47 per cent over January last year, compared with gains of 9.6 per cent in electric output, 12.9 per cent in labor costs, and 21.6 per cent in miscellaneous expenses. The increase over January, 1946, was \$35,600,000 or 117 per cent.

In January the amount of electricity produced by water power dropped 10 per cent below last year. Sections particularly hard hit were New England (with a loss of 53 per cent), New York, Pennsylvania, Maryland, Tennessee, Alabama, and California. Hence, it was necessary to generate 21 per cent more electricity by fuel, and coal consumption increased 22.4 per cent, fuel oil .2 per cent, and gas 32.2 per cent. This seems to indicate an increase in the cost of fuel of 21 per cent. (While part of the cost increase might normally be due to more intensive use of inefficient stand-by equipment, this was probably offset by

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the addition of new and efficient facilities during 1947.) Had hydroelectric operations contributed as much energy in January as a year ago (without allowance for any increase in hydro capacity), about 4 per cent of fuel expenditures could have been eliminated for a saving of about \$2,650,000.

January results were also affected by resumption of the poor showing for other services. Instead of gaining 19 per cent over last year (as in the December year-end results) these operating earnings were 20 per cent below last year; and miscellaneous income, instead of showing a 2.1 per cent gain as in December, dropped 47.4 per cent. Fixed charges were slightly lower than in December, affording a moderate offset.

The outlook for February may be slightly better, though relief from the California drought did not appear until toward the end of March. Hydro output for the country as a whole in February slightly exceeded that of last year, and use of coal was only 19.5 per cent over last year (with a decline of 10 per cent from the January figure partly accounted for by two days less in the month). Thus fuel expense may make a slightly better showing.

Utility Financing Versus Construction Requirements

THE accompanying table lists the principal public offerings of utility securities for the period March 23rd to April 20th. (See April 8th FORTNIGHTLY, page 500, for previous list.) The current list includes additional columns showing security yields—(1) the net yield cost to the utility company, and (2) the yield on the offering price, realized by the buyers of the securities. During this period the average yield cost to utility companies was as follows:

Aaa Bonds	2.74%
Aa Bonds	3.00
A Bonds	3.16
Baa Bonds	3.56
Preferred Stocks	4.90
Common Stocks	8.47

The present costs of bond financing are somewhat in line with conditions in 1941-1942, although Baa bonds are faring relatively better. Following are Moody's bond yield averages for selected years:

Year	Aaa	Aa	A	Baa
1947	2.59%	2.67%	2.78%	3.08%
1946	2.51	2.58	2.71	3.03
1942	2.73	2.87	3.09	3.73
1937	3.21	3.45	3.98	5.09
1932	4.61	5.32	6.46	8.78
1925	4.82	5.03	5.42	5.91
1920	6.53	6.65	7.57	7.99

For the first quarter of 1948 the preliminary FORTNIGHTLY tabulation of utility financing shows the following totals:

	No. of Issues	Amount (Millions)
Electric	58	\$406
Telephone	5	153
Gas	7	58*
Water	3	11
Total	73	\$628

Financing by the electric companies (only) was as follows:

	Millions	Per Cent
Mortgage Bonds ...	\$300	
Debentures	39	
Total Debt	\$339	84%
Preferred Stock ...	30	7
Common Stock	38	9
Total	\$407	100%

THE meager proportion of preferred stock financing bears out the contention of George D. Woods (see page 631) regarding the present breakdown with this type of financing under competitive bidding rules. The apparent solution, as indicated by the sound results obtained by Idaho Power, is gradual sale through local brokers without underwriting.

While common stock financing also seems low, it is probably adequate when allowance is made for the large amount of equity money flowing in automatically through amortization charges and surplus earnings.

Private financing accounted for 18 out of 44 bond and debenture issues, and 23 per cent of the dollar amount. One pre-

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ferred stock issue (\$1,000,000) was also sold privately. Of the common stock sales, three went directly to the public (\$9,000,000) while six were sold principally through subscription rights (\$29,000,000).

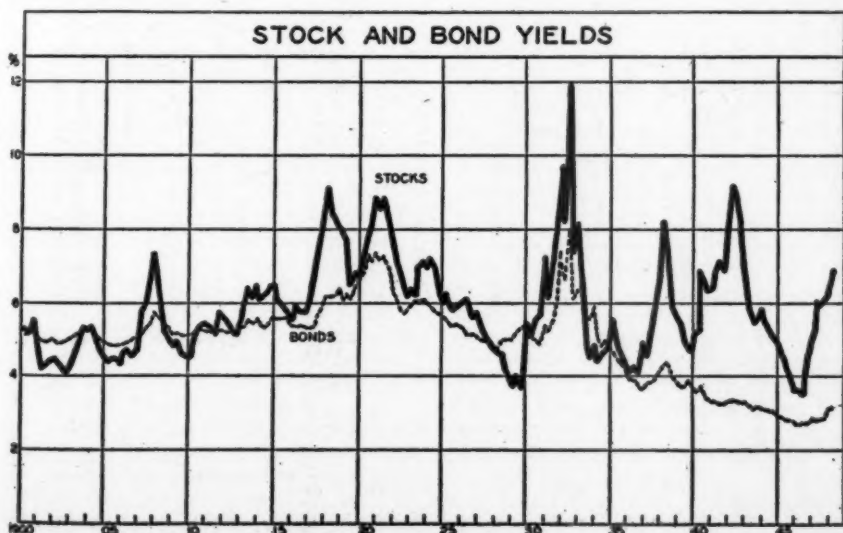
If new money financing by the electric companies continues during 1948 at the first quarter rate (\$355,000,000) the total for the year will amount to about \$1.4 billions. This compares with estimated expenditures for construction of some \$1.7 billions. Depreciation last year amounted to \$342,000,000 and surplus earnings approximated \$185,000,000; including amortization, a total of \$600,000,000 cash may be available from these sources, leaving \$1.1 billions to raise by new financing. Hence the industry seems slightly ahead of schedule with its current financing.

Publicity for Annual Reports

SOME utility companies now realize that publication of the annual report affords a fine opportunity for promotion of public relations. Several companies—Pacific Gas and Electric, West Penn

Electric, etc.—have recently published newspaper advertisements with charts and figures presenting high lights of the annual report. The president of another utility has sent to a number of Wall Street statisticians a mimeographed letter (accompanying the annual report) giving answers to questions which had been propounded to him.

A number of utility executives during the course of the year appear before the New York Society of Security Analysts, speaking at luncheon forum gatherings of 100-200 statisticians or members of Wall Street firms. Usually the talks last from thirty to forty-five minutes, with a question period following; frequently a statistical bulletin or brochure is prepared for distribution, and sometimes large charts are used to show the trend of earnings, expenditures, etc., or lantern slides present colored pictures of the company's property. Columbia Gas is currently showing a film of its natural gas properties to a group of Wall Streeters at an uptown hotel. North American Company entertains members of the press in connection with its annual stockholders' meeting.



From the "Business Bulletin" of the Cleveland Trust Company.

PRINCIPAL PUBLIC OFFERINGS OF UTILITY SECURITIES (March 23 to April 20, 1948)

Date	Moody Amount Rating (Mill.)	Description	Price to Company*	Price to Public*	Yields Net to Company	Yields To Public	Prin. Syndicate Head
Mar. 25	Baa	Interstate Pr. 3-3/4/78	101.72	102.72	3.66%	3.60%	Smith, Barney
Mar. 24	A	Kansas G&E 3-1/8/78	100.72	101.25	3.09	3.06	Halsey
Mar. 24	Aa	Louisville G&E (Ky.) 3/78	100.68	100.99	2.97	2.95	Harriman
Mar. 24	Aa	West Penn Pr. 3/78	100.72	101.19	2.96	2.94	Halsey
Apr. 1	A	Calif.-Oregon Pr. 3-1/8/78	100.53	101.00	3.10	3.07	Halsey
Apr. 1	Aa	Ohio Power 3/78	100.53	100.99	2.97	2.95	Halsey
Mar. 31	Aa	Texas Electric Serv. 3/78	100.87	101.19	2.96	2.94	Union Securities
Mar. 31	A	Utah Pr. & Lt. 3-1/8/78	101.13	101.46	3.07	3.05	Lehman
Apr. 7	A	Michigan Cons. Gas 3-3/8/69	101.53	102.25	3.28	3.23	White, Weld
Apr. 7	A	Southern Counties Gas 3-1/4/78	100.56	100.96	3.22	3.20	Blyth
Apr. 19	Aa	Gulf States Util. 3/78	101.22	101.75	2.93	2.91	Halsey
<i>Debentures</i>							
Mar. 25	A	Columbia G&E 3-1/4/73	100.56	101.25	3.20	3.18	First Boston
Mar. 31	A	Texas Elec. Serv. sf. 3-1/4/73	101.39	102.13	3.17	3.13	First Boston
Mar. 31	Baa	Utah Pr. & Lt. sf. 3-1/2/73	100.80	101.68	3.45	3.40	First Boston
Apr. 7	Aa	Dallas P. & L. sf. 3-1/8/73	100.46	101.00	3.10	3.08	Equitable Sec.
Apr. 7	Aa	Mountain States Tel. & Tel. 3-1/8/78	100.44	100.88	3.10	3.08	Harris, Hall
Apr. 20	Aaa	Consol. Nat. Gas 2-3/4/78	100.14	100.75	2.74	2.70	Dillon, Read
<i>Preferred Stocks</i>							
Mar. 24	..	West Penn. Pr. 4.20%	98.56	101.21	4.26	4.15	First Boston
Apr. 6	..	Assoc. Telephone 5% (\$20 Par)	19.94	21.00	5.02	4.76	Paine, Webber
Apr. 7	..	Florida Pr. sf. 4.90%	96.50	100.00	5.08	4.90	Kidder, Peabody
Apr. 8	..	Oklahoma G. & E. 5 1/4%	100.00	104.00	5.25	5.05	Harriman
<i>Common Stocks</i>							
Mar. 25	..	Interstate Pr. (60¢)	6.55	7.35	9.18	8.16	Smith, Barney
Apr. 1	..	Calif.-Oregon Pr. (\$1.60)	19.91	21.50	8.08	7.45	Blyth
Apr. 8	..	Pub. Serv. of N. M. (\$1)	12.31	13.25	8.14	7.55	Allen & Co.

*Reduced to 2 decimals.

FINANCIAL NEWS AND COMMENT

A NEW avenue of publicity has now been opened up with television. Union Oil Company of California is currently presenting its "Report for 1947—the story of an American company's activities for the year—in terms of people and dollars"—on WNBT between 8.30 and 8.50 P.M. Perhaps before long we may see in the family television set the familiar figure of Reddy Kilowatt, along with pictures of generators and other facilities being installed to meet the insatiable demand for service. General Public Utilities has recently instituted a series of regional shareholders' meetings.

Investment Banker Condemns Competitive Bidding

AT the fifteenth annual conference of the Southeastern Electric Exchange at Boca Raton, Florida, April 9th, George D. Woods, chairman of the executive committee of The First Boston Corporation, gave an interesting talk about the present financing program of the utilities. Glancing at the historical background, he mentioned that in the early 1920's mortgage bonds carried interest rates of 5 to 8 per cent, and their distribution to investors usually required a period of months; the customary underwriting commission was 4 per cent. Preferred stocks, usually sold locally, paid dividends of 6 or 7 per cent.

However, the rapid rise of the holding companies during 1926-32 permitted raising great amounts of capital through these companies. The holding companies sold their own bonds and preferred stocks, as well as common stocks, and used the funds in part to finance the growth of operating companies and in part to acquire additional companies. Thus, the money-raising function for a large part of the industry was transferred to New York and Chicago.

During the period 1932-45 utility financing was largely confined to refunding operations, with construction requirements largely taken care of through depreciation, amortization, and other non-cash charges. Also, the large hydroelec-

tric developments by the Federal government reduced the expansion requirements of the private companies. But in recent years, with the gradual elimination of many holding companies and the sudden necessity of financing a tremendous construction program, executives of operating companies suddenly found themselves faced with the problem of developing and consummating financing programs.

MR. WOODS remarked that "Unless you are prepared to become as intimately familiar with matters relating to financing as you are with the various operating phases of your company, the alternative is to institute an arrangement with competent people to advise you with respect to your financing. There are three categories of such competent people which occur to me: first, such organizations as Ebasco Services, Middle West Service Corporation, Stone & Webster Service Corporation, and others; second, investment banking firms; and, finally, commercial banks, several of which have well-trained personnel in their utility loan divisions."

Mr. Woods advocated several policies as a means to facilitate the financial program of the utilities:

(1) Dividends on common stocks should range between 60-70 per cent of available earnings in order to assure continuity of payments at the established rate. This makes it easier to do equity financing from time to time.

(2) Depreciation accruals should be substantial and should be on the basis of cost. In general the maximum amounts permitted as Federal income tax deductions should be appropriated. Replacement of physical property now costs as much as twice the original cost in some cases and if special reserves were created to reflect this increased replacement cost net income would, of course, be smaller. The rules of the Treasury Department should be revised to permit greater flexibility in this respect.

(3) Mr. Woods advocates doing necessary financing promptly, without waiting for a better market. While revolving bank credits are useful in an emergency,

PUBLIC UTILITIES FORTNIGHTLY

permanent financing should not be long delayed. (In this connection it might be noted that Chairman Maltbie of the New York Public Service Commission recently ordered New York State Electric & Gas to postpone part of its finance program, on the ground that the money might lie idle.) Present going rates of interest and dividends, together with increased selling costs, should be cheerfully paid; finance costs were even higher in the 1920's.

(4) Equity securities should be sold in maximum amounts in order to maintain a sound financial structure and facilitate the sale of mortgage bonds in later years when it may be impossible to sell stocks.

(5) In offering common stocks use might be made of the old customer-ownership method. Some of the large investment banking firms might well be willing to organize and educate groups of local security dealers, who would undertake to do a selling job over a period of time without a definite underwriting commitment. Unlike refunding operations, where the money must all be raised at one time, construction financing need not be completed on any given date, since the funds are only used gradually, and revolving bank credits are available to ease the process. (In this connection, attention may be called to the success of Idaho Power in selling its 4 per cent preferred stock over a period of months, without underwriting.)

DISCUSSING some of the difficulties of stock financing over the past year, Mr. Woods remarked:

One reason for the unsatisfactory after-market which has existed for a few of the original issues of preferred and common stocks which have come to the market in the past year and a half, has been that the issue was never fully distributed, and security dealers have disposed of the tag-end in the open market where it has churned around at constantly reducing prices until it is slowly assimilated by bona fide investors at bargain prices. This result has caused many investors habitually to refrain from investing at the time of the original issue, on the theory that they may be able to do better later. If security dealers were only to take delivery from, and make payments to, the issuing company as the stock was

sold, this hurdle would be removed. Another by-product of a no-commitment procedure might be the sale of preferred and common stock on an instalment basis. During the past six years many hundreds of thousands of private investors have formed the habit of buying government bonds on the basis of weekly payments, and they are not strangers to the procedure. This is a method of raising equity capital that will unquestionably receive increasing consideration in the future.

(6) Competitive bidding procedure, particularly with respect to common stocks, is inconsistent with the proper marketing of these securities. Mr. Woods thinks that this fact should be "shouted from the roof tops"—brought forcibly to the attention of Congress and the regulatory commissions. While competitive bidding may appear to work successfully for mortgage bonds, there is an enormous duplication of effort, and competitive bidding is reduced largely to a game of guessing what a few insurance companies will pay for an issue; the machinery for selling bonds to the general public has pretty well deteriorated. An increasing number of investing houses are refusing to operate under the competitive system with respect to common stocks and noninstitutional preferred stocks. The principal reason is that such sales now require a real educational campaign for local dealers and investors, and this process of education is expensive and time-consuming.

THE SEC has made some concession to these conditions, by permitting the utility executive to discuss a forthcoming stock issue informally with several investment bankers and then designate one of them as the underwriter of the issue. (This is being done currently with the Kansas G&E common stock sale.) Then he and the banking house begin their process of education, through talks, preparation of brochures, etc. This procedure of "shopping around" for a banker, which combines elements of both systems, has also proved unsatisfactory. The banker is tempted to act in a dual capacity; in the first instance he is optimistically competing for the business, but in final dealings with the company he must face the realities of selling the issue.

FINANCIAL NEWS AND COMMENT

RECENT FINANCIAL DATA ON GAS COMPANY STOCKS

	4/15/58 Price	Yield	Earned	P-E Ratio
<i>Natural Gas Cos.—Retail</i>				
C Arkansas Natural Gas	6½	..	\$0.80-dec.	8.3
O Atlanta Gas Light (\$1.20)	17	7.1%	1.87-dec.	9.1
S Columbia Gas & E. (75¢)	12	6.3	1.36-dec.	8.8
C Consol. Gas Util. (50¢)	9	5.6	1.23-ja.	7.3
S Consol. Natural Gas (\$2)	48	4.2	4.53-dec.	10.6
O Houston Natural Gas (80¢)	17	4.7	1.29-ju.	13.2
O Indiana Gas & Water (\$1)	15	6.7	1.59-f	9.4
O Kansas-Neb. Nat. Gas (85¢)	17	5.0	1.68-dec.	10.1
C Lone Star Gas (\$1)	21	4.8	1.87-dec.	11.2
O Mission Oil (\$2.10)	43	4.9	2.92-d	14.7
O Mobile Gas Service (\$1.50)	22	6.8	2.47-dec.	8.9
C Montana-Dakota Util. (80¢)	11	7.3	1.27-d	8.7
C National Fuel Gas (80¢)	12	6.7	0.97-dec.	12.4
C Okla. Natural Gas (\$2)	35	5.7	4.20-f	8.3
S Pacific Lighting (\$3)	51	5.9	4.86-dec.	10.5
C Pacific Pub. Ser. (80¢)	13	6.2	2.43-dec.	5.3
C Rio Grande Valley Gas (5¢)	2	2.5	0.21-dec.	9.5
O Rockland Gas (\$1.70)	25	6.8	3.36-dec.	7.4
O Southern Union Gas (70¢)	20	3.5	1.15-j	17.4
O Southwest Nat. Gas (20¢)	4	5.0	0.26-dec.	15.4
O Texas Public Service (\$1.20 and stk.) ...	20	6.0	2.59-f	7.7
C United Gas (\$1)	19	5.9	1.50-dec.	12.7
Averages		5.6%		10.3
<i>Mixed Gas-Retail</i>				
S Laclede Gas Light (20¢)	5	4.0%	\$0.83-dec.	6.0
O Minneapolis Gas Lt.	10	..	1.03-s	9.7
O National Gas & Elec. (60¢)	9	6.7	1.64-dec.	5.5
S Peoples Gas L. & C. (\$5)	90	5.6	10.35-dec.	8.7
S Washington Gas Lt. (\$1.50)	24	6.3	1.88-ja.	12.8
Averages		5.7%		8.5
<i>Natural Gas—Wholesale & Pipe Line</i>				
S El Paso Nat. Gas (\$2.40)	65	3.7%	\$5.30-ja.	12.3
O Interstate Nat. Gas (\$1.75)	26	6.7	1.70-d	15.3
O Missouri-Kansas P. L. (\$1)	24	4.2	1.27-dec.	18.9
S Northern Nat. Gas (\$1.60)	32	5.0	3.23-dec.	9.9
S Panhandle Eastern P. L. (\$3)	55	5.5	4.49-dec.	12.2
S Southern Nat. Gas (\$1.50)	22	6.8	2.66-dec.	8.3
O Southern Production	10	..	0.30-ap.	33.3
O Tenn. Gas & Trans. (\$1.40)	26	5.4	2.40-dec.	10.8
O Texas Gas Transmission	8	..	1.03-f	7.8
O Texas East. Trans.	11	..	.36-dec.*	..
Averages		5.3%		14.3
<i>Manufactured Gas Company—Retail</i>				
O Birmingham Gas (60¢)	10	6.0%	\$0.83-s	12.0
C Bridgeport Gas (\$1.40)	21	6.7	1.69-dec.	12.4
O Brockton Gas Lt. (\$1)	12	8.3	1.00-dec.	12.0
S Brooklyn Union Gas	17	..	Def.	..
O Hartford Gas (\$2)	32	6.3	2.10-dec.	15.2
O Haverhill Gas Lt. (\$1.60)	18	8.9	1.46-f	12.3
O Jacksonville Gas (\$1.40)	28	5.0	5.47-d	5.1
Averages		6.9%		11.5

Def.—Deficit. wd—When distributed. C—Curb Exchange. O—Over-counter or out-of-town exchange. S—N. Y. Stock Exchange. d—December, 1946. ap.—April; j—June; ju.—July; s—September; dec.—December, 1947; ja.—January, 1948; f—February, 1948.

*Eight months.

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RECENT FINANCIAL DATA ON TELEPHONE, TRANSIT, AND WATER COMPANIES

Telephone Companies		Recent	Yield	Earned	P-E
Bell System		Price			Ratio
S	American Tel. & Tel. (\$9)	\$153	5.9%	\$7.28-dec.	21.0
O	Cinn. & Sub. Bell Tel. (\$4.50)	74	6.1	3.85-dec.	19.2
C	Mountain States Tel. & Tel. (\$5)	99	5.1	2.95-dec.	33.6
C	New England Tel. (\$4)	86	4.7	4.26-dec.	20.2
S	Pacific Tel. & Tel. (\$4)	100	4.0	2.80-dec.	35.7
O	So. New England Tel. (\$6)	114	5.3	3.76-dec.	30.3
Averages			5.2%		26.7
Independents					
C	Associated Tel. & Tel. A	84	..	Def.	..
S	General Telephone (\$2)	27	7.4	\$2.14-dec.	12.6
C	Peninsular Tel. (\$2.50)	47	5.3	6.40-dec.	7.3
O	Rochester Telephone	10	..	.47-dec.	21.3
Transit Companies					
O	Baltimore Transit	3	..	Def.	..
O	Capital Transit	13	..	Def.	..
O	Chic. S. S. & S. B. (\$1.10)	10	11.0	1.38-dec.	7.2
O	Cinn. St. Rwy. (60¢)	8	7.5	1.57-dec.	5.1
O	Dallas Ry. & Term. (\$1.40)	13	10.8	3.31-o	3.9
O	Duluth Sup. Tran. (\$1)	9	11.1	2.75-dec.	3.3
O	Kansas City Pub. Ser.	14	..	Def.	..
O	Los Angeles Transit (50¢)	5	10.0	.84-d	7.2
S	National City Lines (50¢)	64	7.7	2.00-d	3.3
O	Phila. Trans.	4	..	.31-dec.	12.9
O	Rochester Transit	7	..	Def.	..
O	St. Louis Pub. Ser. A (50¢)	5	10.0	.37-dec.	13.5
O	Syracuse Transit (\$3)	23	13.1	3.52-dec.	6.5
S	Third Ave. Transit	12	..	Def.	..
S	Twin City Rapid Tr.	6	..	.62-dec.	9.7
O	United Transit	34	..	.21-dec.	16.7
Averages			10.2%		8.1
Water Companies					
O	Elizabethtown Water (\$6)	124	4.8	\$8.81-d	14.1
O	Federal Water & Gas (\$1.20)	26	4.6	1.32-d	19.7
S	Hackensack Water (\$1.70)	34	5.0	3.08-dec.	11.0
O	Indianapolis Water A (80¢)	19	4.2	1.19-dec.	16.0
O	Middlesex Water (\$3)	63	4.8	5.71-dec.	11.0
O	New Haven Water (\$3)	59	5.1	3.34-dec.	17.7
O	Northeastern Water	13	..	.47-s	..
O	Phila. & Sub. Water (80¢)	21	3.8	2.63-d	8.0
O	Plainfield Union Water (\$4)	80	5.0	4.74-dec.	16.9
O	Stamford Water (\$1.80)	53	3.4	2.27-dec.	23.4
Averages			4.5%		15.3
Water Companies—1946-7 Issues					
S	Amer. Water Works (60¢)	8	7.5	\$0.84-dec.	9.5
O	California Water Ser. (\$2)	29	6.9	2.70-dec.	10.7
O	Ohio Water Ser. (\$1.50)	21	7.1	2.21-dec.	9.5
O	San Jose Water (\$2)	33	6.1	2.69-dec.	12.3
O	Scranton-Spring Brook (70¢)	10	7.0	.91-s	11.0
O	West Virginia Water Ser. (\$1.05)	16	6.6	1.38-s	11.6
Averages			6.9%		10.8

Def.—Deficit. C—Curb Exchange. O—Over-counter or out-of-town exchange. S—N. Y. Stock Exchange. d—December, 1946. s—September, 1947. o—October, 1947. dec.—December, 1947.



What Others Think

Annual Reports — 1947



IN recent years it has been noticeable that an increasing number of corporations, in diverse lines of business, have featured in their annual reports to stockholders a variety of informative data in addition to the customary financial statements. Among utility companies the adoption of this policy may be noted to a marked degree.

The utilities' annual reports for 1947—two score or more have come to hand at this writing—are, with minor exceptions, so attractive and so interesting as to provide extremely worth-while reading.

Artistic cover designs, illustrations of unusual interest, effective charts and graphs, and text telling the essential facts of the year's business—all these are factors which indicate the alertness of the managements of the investor-owned utilities to the importance of the annual report as a medium for fostering public relations, as well as a statement of financial and other operations.

Characteristic of this year's utility annual reports is the almost universal reference to certain conditions and problems which, it is evident, have their impact, in greater or less degree, on practically the entire business-managed utility industry. Chief among these may be mentioned the following items:

- (1) Unprecedented postwar demand for service.
- (2) Expansion plans expedited to care for this growth, requiring large construction expenditures during next four to five years.
- (3) Mounting wages and fuel costs have reduced net income.
- (4) Importance of maintaining

earning power, in order to successfully finance extensions on reasonable terms.

(5) Possibility that rate increases may have to be sought to maintain an adequate rate of return.

Aside from the comments upon these matters of moment to the entire utility industry, each company's report is distinctly individual, not only in its make-up but in its discussion of various phases of its affairs. To illustrate this individuality, several of the reports, picked at random from those received, are reviewed below, with excerpts of certain passages of special interest.

AFTER reviewing these reports several thoughts come forcibly to mind. The reader is led easily into a clear understanding of the company's achievements and problems. Simple reasons are given for the success of the utility in maintaining service, expanding plant, or holding rates in check. When the company happens to be having trouble of any kind, there is an observable tendency to take the stockholder and customer into confidence with management.

The decided trend toward popularizing the method of presentation is most noticeable. This means of course that an increasing number of readers are gaining a knowledge of not only how many kilowatts of electricity or cubic feet of gas have been produced but how economic factors such as inflation affect the welfare of the company and the community it serves. The American enterprise system is described "as it works" in terms anyone can understand.

One practical value to utility executives of reviewing a sizable number of

PUBLIC UTILITIES FORTNIGHTLY

reports outside of one's own immediate interest is to glean ideas which may be useful on home grounds. As additional annual reports for 1947 become available, it is the plan of the FORTNIGHTLY to present another review in a later issue.

Associated Telephone Company, Ltd.

ASSOCIATED TELEPHONE COMPANY, LTD., of Santa Monica, California, has included in its annual report some interesting features aimed at continuance and improvement of the good relationships now existing with the community and with employees. For example, enclosed with telephone bills to customers is a card announcing that the company's annual report is ready for distribution and it will be mailed to any customer who signs the card and returns it with the payment of the bill. Also, the first line of text in the report itself states that the information included is for the "investors whose money has provided the plant and facilities and the working capital of the company, the businessmen and the residents of the territory served by the company, and for the men and women of the company whose efforts are devoted to the furnishing of telephone service in that territory." On the subject of labor relations the president, Edwin M. Blakeslee, says in part:

The company has a recognition agreement with the Independent Telephone Employees' Organization, which the company is informed is affiliated with the Communications Workers of America, and which at December 31, 1947, represented approximately 92 per cent of the company's nonmanagement employees as their collective bargaining agent. As in previous years good relations with the bargaining organization continued throughout the year and it is gratifying to be able to report that the company's entire employee body remained at their work during the period of the nation-wide telephone strike during April and May, 1947.

The report mentions that the company has received a license to construct and operate facilities for the purpose of furnishing mobile telephone service, through the use of radio, to automobiles, busses, and trucks. Confidence-inspiring pic-

tures, charts, and a large map of service area are included.

Cincinnati Gas & Electric Company

RATE case problems are given a pre-dominant position in the annual report of the Cincinnati Gas & Electric Company. President Walter C. Beckjord promptly points up major company developments in the first paragraph of his short but effective letter of introduction to the report. He says:

Three major developments marked our operations during the year 1947:

1. In our rates cases with the city of Cincinnati, the Ohio Public Utilities Commission issued an order providing for an increased interim gas rate, which should have a favorable bearing on the final determination of fair and reasonable rates.

2. Substantial progress was made on the gas and electric expansion program begun in 1946.

3. Your company arranged for the sale of 204,000 shares of additional common stock which was consummated in January, 1948.

In explaining the rate situation Mr. Beckjord said that in presenting gas and electric rate cases before the commission it was the company's aim not only to justify the collected rates, but also to "obtain higher rates to compensate for mounting costs of labor, coal, and materials, and to leave a fair return on the increasing investment in plant and facilities."

The report is prepared with public appeal in mind. Attractive pictures, maps, and charts are a feature of the 32-page booklet. For example, on the inside of the cover is an impressive picture of a statue of Abraham Lincoln with small children looking up with admiration at the figure. Printed above is a Lincoln quotation: "Public sentiment is everything. With public sentiment, nothing can fail; without it, nothing can succeed."

Successful efforts have been made to make the report readable. A table of contents guides the reader to his favored subjects. Considerable attention is given to the subject of expansion and new projects.

WHAT OTHERS THINK

THE company has taken a leading part in a program of industrialization for the greater Cincinnati area. These efforts and the results obtained are presented in considerable detail. The general objectives of this plan are described as follows:

Your company's industrial development activity is pointed toward two objectives:

- (1) Our industrial engineers constantly study the problems of present customers, to help improve their methods and efficiency;
- (2) our engineers negotiate with other industries which are planning expansion, to influence them to locate in the Cincinnati area.

Two full pages are devoted to employee relations. Relations with unions are discussed amicably and frankly. Various company benefits and employee social and recreational activities are described by text and pictures.

Cleveland Electric Illuminating Company

THE Cleveland Electric Illuminating Company goes on record in its annual report as to the possible effect of increasing costs on the rate structure. Elmer L. Lindseth, president, defines company policy in a section of the report entitled "Looking Forward." He says:

One of the major reasons for the substantial increase in the demand for electricity is its low cost in relation to the high value of the services it performs.

It is the policy of the company to charge the lowest possible rates consistent with (1) high-grade service to customers, (2) good wages and good working conditions for employees, and (3) a reasonable return for the use of the capital employed in the business.

By constantly improving economies and efficiencies in its operations, the company from its beginning has consistently reduced rates for service to residential and general commercial customers.

Even in the face of the soaring costs during the war and since, the average price of electricity supplied for the home, and also for small business, has been decreasing and today is the lowest in our history.

This is a trend we are applying our best efforts to preserve. However, increasing costs beyond our control could compel adjustments in rates in order to increase revenues. At all events, revenues must be kept sufficient to support adequate service, to provide proper compensation for employees, and

also to provide earnings that will enable the company to attract more capital to provide more service as our customers require it.

THE company engages in extensive activities which are designed to build up the area served. The report describes two of these activities as follows:

In support of this campaign the company carries on a nation-wide sales program to attract industry and business here. Our advertising has made the Cleveland-Northeast Ohio area known to millions as "the best location in the nation" for many industries—for production, distribution, and management headquarters. We provide prospects with a confidential, complete location engineering service. We also provide this service to local concerns planning to expand.

As an added tool to demonstrate the superior advantages of our area to the people who live here, as well as to concerns we seek to bring here, the company has sponsored a documentary motion picture, produced by The March of Time, entitled "OPPORTUNITY, the Story of the Best Location in the Nation." This film will be shown to more than a million people in our area before the end of this year, and also to audiences in many other places.

This company's report is one of the large and increasing number which are aimed at popular appeal. The 34-page booklet contains many maps, pictures, and charts—some in color.

Columbia Gas & Electric Corporation

PRESIDENT Stuart M. Crocker of Columbia Gas & Electric Corporation in introducing his annual report addresses his letter to the shareholders and employees of the system. The introductory letter was in a cheerful vein with respect to operations and earnings. This attitude was qualified somewhat by noting the rapidly increasing costs and their possible effect on future rates. In this connection he said:

... Our operating expenses increased substantially, because wages were higher and everything we bought more expensive. And even then, companies were unable to supply us with the materials we needed. And we, in turn, were unable to deliver all the gas our customers wanted.

To the extent that these increases in the cost of doing business cannot be offset by a still greater volume of sales and greater efficiencies in operations, relief must inevitably

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"THIS IS MISS LOVELACE—ONE OF OUR BEST LONG-DISTANCE OPERATORS!"

be sought by applications for increased rates. Two years ago, in the annual report for 1945, we stated that "Public utility rates possess no special immunity from the economic laws governing wages and prices in general industry."

A feature of the method of presentation of facts in the report is briefness. For example, the first page following the introductory letter is entitled "The Year 1947 in Brief." The top half of this page is devoted to half a dozen vital facts taken from the earnings statement. Below this, in a combination diagram and text form, there are presented six short paragraphs dealing with operations, such as gas sales, gas reserves, new facilities, and customers served.

On the next page is a pictorial diagram

of the system's income dollar, showing source and disposition. The company engages in large-scale underground gas storage operations. These activities are described in considerable detail. Some of the more pertinent facts given are:

The gas withdrawn from underground storage reservoirs during the winter is replaced during the spring, summer, and fall with quantities of gas purchased and produced then, which are in excess of the market requirements during those off-peak seasons.

On November 1, 1947, the Columbia Gas system had 47,000,000,000 cubic feet of gas in underground storage. The maximum daily quantity which could be withdrawn on that date was approximately 286,000,000 cubic feet....

Plans have been made to increase gradually the quantity of gas in present and new

WHAT OTHERS THINK

underground storage reservoirs to 116,000,000,000 cubic feet. This will permit the withdrawal of 1,100,000,000 cubic feet per day.

The report contains a large 2-page colored map of the area served by the system, showing the physical properties of the corporation's subsidiary companies. A section called "Columbia's People" gives data on the number of employees and the size of the payroll disbursed. Also included in this section is a short discussion on personnel policies, employee benefits, and safety programs. The 30-page booklet contains many pictures, some of which were the result of a Columbia Gas system photo contest.

Connecticut Light & Power Company

THE Connecticut Light & Power Company emphasizes in its annual report the difficulties created by continuing shortage of equipment, record demands for electric power, high taxes, and advancing prices for most materials. It was pointed out that in the past the company has been able to give customer rate reductions despite gradual increases in costs. C. L. Campbell, president, credits this past record to increased use of electricity by the company's customers and to improved machine efficiency. However, now he reports, "Unfortunately, it is very doubtful that these two factors can be counted on in the future to absorb further increases in cost of operation and, if they are unable to do so, it may be necessary to raise the service rates."

This report makes extensive use of maps, pictures, and diagrams in color to make the 25-page booklet readable. Type is large and doubled spaced to aid the eye. Large, clear headings printed on a colored background make the various subjects discussed easy to locate.

One of the numerous sections is given over entirely to taxes. Some of the statements made are pointed and startling. A few of these follow:

Our company's total tax obligations during 1947 amounted to \$5,201,053, as compared with wages and salaries of \$6,719,264, and dividends on the common stock of \$4,123,759. Of this amount \$3,628,958 was for Fed-

eral taxes and \$1,572,095 for state, town, and municipal taxes.

Most of us are paying higher taxes these days and our company pays its fair share without complaint. It might be pointed out, however, that municipal and Federal power systems, which are built with taxpayers' funds, pay no taxes to the Federal Treasury and, in many cases, are exempt from payment of state and local taxes.

If by chance our company's \$5,201,000 tax bill for 1947 had been eliminated, we would have been able to give our 188,801 residential customers free electricity for six months of the year.

As is the case in many public utility annual reports, this company gives considerable attention and space to employee and customer relations. With respect to rural electrification the report states:

Aided by an improved supply of line-building materials, your company in 1947 continued to advance its rural electrification program as rapidly as possible. During the last year, 348 miles of new lines were built by the company to serve 2,556 new rural customers.

As an indication of the extent to which rural electrification has progressed in Connecticut, statistics compiled by the Connecticut Public Utilities Commission, revised to December 31, 1947, reveal that Connecticut's electric companies must extend only 415 miles of lines to make electricity available to the 495 remaining farms, and 1,090 annually and seasonally occupied residences and other establishments now without access to electric service.

Connecticut and Rhode Island, in that order, lead the nation in rural electrification and have reached this position through the efforts of the business-managed, tax-paying electric companies working in co-operation with the public utilities commission, farm bureaus, and other agricultural organizations. Neither the Rural Electrification Administration nor any other Federal government agency has been called on for financial or other assistance, the entire cost of which would have been borne by the taxpayers.

Other sections of the report are devoted to improvements to property, relations with the Federal Power Commission, financing, and "the future."

Detroit Edison Company

OPTIMISM as to the future is one of the main themes in the annual report of the Detroit Edison Company.

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Prentiss M. Brown, chairman, and James W. Parker, president, see many factors pointing toward more business for the company which is making preparations to handle it.

This is emphasized throughout the annual report and, in a closing special section called "Looking Forward," here is the way it is expressed:

It now takes an abnormally long time to obtain delivery of major generating and transmission equipment. We must, therefore, plan for anticipated growth of our business several years in advance of actual need for these facilities. As previously stated in this report we have placed orders for new equipment which will increase our generating capacity about 23 per cent. We have started construction of buildings to house some of this machinery. We have also started work on additional transmission and distribution facilities needed to deliver this added capacity to our customers.

To supplement our additional generating capacity, we plan by 1949 to increase our present 50,000-kilowatt interconnection with the Consumers Power Company to 100,000 kilowatts and to construct between the two systems a second interconnection of equal capacity. We expect that these two interconnections will reduce materially the amount of reserve generating capacity required for the two systems, and thus effect a substantial saving for each company. Our whole construction program is the largest we have ever undertaken. The probable need for these additional facilities is evident, but we may slow down the work if future economic conditions indicate the desirability of such action.

The report states that the company has nearly completed the extension of lines to all farms desiring service in the territory served. This objective has been a goal of the company since 1923 when a plan was initiated. The report states:

... It has been delayed somewhat in recent years by shortages of materials and man power but should be an accomplished fact in 1948. We believe our company will be the first utility serving an extensive rural area to have electric service available to all. Farm service is good business for us. The average farm uses 50 per cent more electricity than an urban residential customer.

TEXT of the report is sectionalized with appropriate headings for the readers' convenient reference. Type is
MAY 6, 1948

clear and large with pleasing white space between lines.

Under a section headed "Utility Rates," management reported that electric rate schedules covering high-voltage service to industrial and large consumers were reduced, with the approval of the Michigan Public Service Commission. This was worth about \$2,000,000 to such customers. The year before the residential, farm, and small commercial users received special discounts during the last two months amounting to \$1,500,000. No similar action was taken in 1947. It was found necessary to advance gas rates for some types of customers in May, 1947. Residential space-heating and industrial rates were increased about 15 per cent and rates for commercial space-heating service were raised about 20 per cent.

A unique page of the report having popular appeal was entitled "How We Use Radio." Radio is considered a good load builder, primarily because of the very large number of sets in use. Second, the company participates in several general programs from the public relations angle—"Music for Michigan," "The Hour of Charm," and "Listening in with Jackson."

The company is now on the air twice weekly with an evening televised news broadcast.

Pacific Gas and Electric Company

THIS is the forty-second annual report of the Pacific Gas and Electric Company. The make-up of the 40-page booklet reflects the dignity of years of public service. Art work of the highest type relieves the reader from the necessarily tedious task of reading lengthy text.

The "To the Stockholder" message stressed unprecedented activity in 1947, favorable earnings, a sharp upturn in costs, and a large construction program. However, the advance in costs was the cause of the following warning by President James B. Black:

While the company and the industry of which it is a part have shown remarkable

WHAT OTHERS THINK

resistance to the impact of inflation, it appears likely that the steady downward trend of utility rates in this area has been halted, at least temporarily. The course of rates in the future must depend upon the extent to which mounting costs are offset by continued business development and such economies in operation as we may be able to effect.

The introductory message explains the power shortage in California. Despite unusual increases in generating capacity there are indications that 1948 will be a year of critically deficient water supply for hydroelectric operations and for agricultural purposes. The winter's severe drought has not only reduced the amount of hydroelectric power available but it has created a large unseasonal irrigation pumping demand. Hence, restrictions have had to be placed on the use of power, as prescribed by the California Public Utilities Commission. (See page 647.)

In the main body of the report considerable emphasis is placed on the impact of taxes. A few pertinent excerpts are quoted:

Taxes continued to be the largest single item of expense incurred in conducting our business. In 1947 they exceeded by more than \$3,000,000 the wages and salaries paid to the 9,000 or more employees who operate our properties.

Taxes amounted to \$5.48 for every share of common stock outstanding at the end of the year. In other words, our common stockholders received in dividends less than two-fifths of the amount paid or payable in taxes to Federal, state, and local governments.

Previous reports have called attention to the gross inequalities in the tax structure arising from the continued exemption accorded revenue-producing government-owned utilities. Literally billions of dollars of public funds supplied by the nation's taxpayers or obtained from bond issues supported by the taxing power, are invested in these projects.

To further dramatize the impact of taxes on the company, there was reproduced in the report a statistical table showing the impact by classes and comparisons with the previous year. While the amounts shown are impressive, the mere list is effective in driving the point home.

Here is the list shown in the table:

<i>Local Taxes</i>	<i>City and State</i>
Ad valorem property	Sales and use
Franchise payments	<i>Federal Taxes</i>
<i>State Taxes</i>	Corporation income
Bank and corporation franchise	Electric energy
Unemployment	Unemployment
Other	Old-age benefits
	Other

In the latter part of the report the company explained its existing contracts with the government-owned Shasta hydro power plant of the Central Valley project. In 1947, Pacific continued to purchase and distribute the entire available output of that plant, well over a billion kilowatt hours. The company states that it stands ready to take whatever additional power the project can deliver and to pay for it at rates established in the contract in effect since June 26, 1944.

Pennsylvania Power & Light Company

MOST extensive use of popular presentation, including Reddy Kilowatt, characterizes the 1947 report of Pennsylvania Power & Light Company, prepared by President Charles E. Oakes. Even before the reader arrives at the body of the report itself, the importance of power interconnections to the company and its customers is illustrated by a three-quarter page map followed by short interesting text. The facts given are so impressive and educational that they are reproduced here in full:

The company operates its power supply system as a part of a large electric power pool which, generally speaking, includes most of the eastern Pennsylvania, New Jersey, Delaware, and Baltimore-Washington areas.

The backbone of the interconnection in the Pennsylvania-New Jersey area is the 220,000-volt "ring" tying together the systems of Pennsylvania Power & Light Company, Public Service Electric & Gas Company, and Philadelphia Electric Company. The systems of twelve other neighboring business-managed utilities complete the pool. Through this pool, interconnecting approximately one-tenth of the nation's entire generating capacity, the operations of the various companies' generating facilities are coordinated so as to obtain the lowest over-all production costs and maximum service reliability. The Pennsylvania-New Jersey-

PUBLIC UTILITIES FORTNIGHTLY



Courtesy, "Snap Shots," Georgia Power Company

"NOTHING TO IT—JUST PUT IT ON AND PLUG 'ER IN!"

Delaware-Maryland power pool in turn is connected with a similar pool in the New York and New England area.

In 1927, a commission of British technicians studied this important interconnection in the process of modernizing and expanding power supply facilities in England. This modernization subsequently resulted in the much publicized British grid.

PRACTICALLY all of the important points made in the report are illustrated with charts and pictures. New record activities were stressed, particularly new construction plans.

Operating efficiencies are emphasized by describing in simple language certain important ratios, such as plant invest-

WHAT OTHERS THINK

ment to annual electric revenue and plant investment to system peak load.

Other points explained were: (1) expansion of rural electric lines, (2) necessity for a rate increase to large users which was granted by the state commission, (3) the "home-town" characteristics of the company and its employees, and (4) increased operating costs.

Philadelphia Electric Company

No effort has been spared by Philadelphia Electric Company and its board of directors to make its annual report attractive to the public. The art work is unique and the general tone of the report is optimistic. For example, in the financial summary at the beginning of the 40-page booklet we find the following statement:

While utility earnings are temporarily caught between rising costs on the one hand and controlled prices for utility services on the other hand, the long-term outlook is for continued growth and prosperity. The rapidly increasing acceptance of "electric living" and the continuous development of new labor-saving devices, for homes, businesses, and factories, are indications that the electric industry is still young and vigorous, with a bright future ahead.

This same theme is carried over in the art work used in the report. An impressive double-page spread in the center of the booklet contains seven black and white drawings superimposed on a light brown background. Each drawing is indicative of some phase of the title "Six-year Expansion Program to Meet the Growing Needs of a Thriving Territory!"

In the center of the spread is brief text reading as follows:

Financing a Bright Future

The company's expansion program, beginning in 1947 and continuing through 1952, is estimated to cost approximately \$235,000,000.

This amounts to more than \$100,000 a day during the 6-year period.

To finance this program, the company will need approximately \$105,000,000 of new capital during the period 1947-1952, including the \$40,000,000 of bond and preferred stock financing early in 1948.

The remainder will be provided from

financing that was completed in 1946 as well as from reserves and earnings.

Reading of the report is made easy by use of most of the well-known devices which are of a dignified character. Even the letter of the certified public accountants is presented in such an interesting manner that the most casual reader might scan one of the two paragraphs.

Southern California Edison Company

COMPLEX problems of management are clearly portrayed in the annual report of Southern California Edison Company. Most of the activities and operations of the company are explained clearly and at the same time related to developments in the economic conditions of the area served, the nation, and the situation in foreign countries. The president, W. C. Mullendore, explains for example the effect of inflation on capital costs. A few excerpts from his discussion are enlightening:

... the current inflation, resulting from years of managed money and the monetization of unbelievable national deficits, is now threatening to offset, or more than offset, with higher capital costs, such gains as were achieved in the years of "cheap money." The managed 3 per cent rental for the \$200 required to set a pole today, in reality, becomes high-cost money in relation to the former free market rate of 5 per cent for the \$100 required for the same purpose in the past.

... Now the inflation boom requires new capital for plant expansion in unprecedented amounts. Since it now takes from \$1.50 to \$2 to buy the labor, materials, and equipment which previously could be bought for \$1, the number of dollars required for the same amount of plant is also greatly increased as compared with the depression years. Management thus is confronted with the fact that at a time when the "easy money" policy is slipping and the cost per dollar of capital is rising, it also happens that 50 per cent to 100 per cent more dollars are required to buy the same amount of plant.

ENCLOSED with the report is a large pictorial map in colors showing the company's principal transmission system and its three major sources of power. The report attempts an appraisal of the company's prospects for the year 1948.

PUBLIC UTILITIES FORTNIGHTLY

Three factors are dominant in the consideration: (1) drought conditions, (2) an expensive frequency change program, and (3) the effects of an expanding plant, as well as general economic conditions. The forecast given is:

It is not believed that growth in gross revenue in 1948 will be sufficient to overcome the greatly abnormal fuel costs anticipated for the year and the remaining frequency change expenses mentioned. Accordingly, net income for the year is expected to decline as compared with 1947.

Also, considerable attention is given in the report to changes in capital structure, new capital requirements, plant expansion, and the impact of taxes upon earnings.

Union Electric Company of Missouri

THE annual report of the Union Electric Company of Missouri is aimed toward a wide audience and it contains many unique features to interest not only the stockholders but the company's employees and the communities served. In order to attract the more casual reader extensive use is made of high-class art work in pictures, diagrams, and charts reproduced in strong attractive colors.

Early in the report a full page is given to a short "Statement of Policy." Both the content of the statement and its physical presentation on the page are of interest. As to the presentation, it is most readable; printed in fairly large italic type on a light green page. Paragraphs are short and the lines are double spaced. The statement by President J. W. McAfee reads:

We are a business enterprise—dependent for success on the high quality and fair price of our service; on the skill, courtesy, and loyalty of our employees; on the confidence of our investors; and on the ability of our management to forecast and provide for the steadily increasing electric power requirements of our area.

In the conduct of our business it is our policy to render service of the highest quality to our customers—promptly, courteously, and efficiently—at prices consistent with a policy of paying fair wages and affording job satisfaction and security to our employees; providing modern facilities for our customers' expanding needs for elec-

tric service; and paying a fair return to our investors who have provided the funds to make such service possible.

As a private enterprise entrusted with an essential public service, we recognize our civic responsibility in the communities we serve. We shall strive to advance the growth and welfare of these communities and shall participate in civic activities which fulfill that goal . . . for we believe this is both good citizenship and good business.

These principles, clearly affirmed and honestly carried out, will merit the confidence and good will of customer and community, employee and investor.

THE report explains with simple text and numerous diagrams (a) record sales, (b) very rapid increase in costs, particularly for fuel, (c) a decline in net earnings, and (d) the possible effect of such rising costs on future rates. A few excerpts are pertinent in this connection:

The sharp rise in our "cost of living" deserves special comment. Increases in coal prices and wage rates, both of which were substantially higher than last year and more than 50 per cent higher than in 1940 (the last prewar year), already have been discussed. They are the major items, but almost all others—such as wire, poles, transformers, office and building supplies—were bought at sharply higher prices. . . .

In the future, the price of electricity may be more sensitive than in the past to increases in fuel, wages, and other operating costs, including the fixed charges on new facilities.

In a half-page diagram illustrated with pen drawings the company said that in 1947 the Union Electric system paid more than 50 different taxes, totaling over \$11,300,000, to assist in paying the cost of schools, fire protection, national defense, highways, government, and police protection. At the bottom of the diagram was the following footnote:

The proponents of "tax-free" government-owned power projects rarely discuss the effect of taxes paid by business-managed electric utilities. For example, if Union Electric had been able to eliminate taxes, it could have supplied free electrical service to all of its thousands of farm and home customers for almost nine months in 1947.

In a section labeled "Financial Position," it was pointed out that the property account of the system amounted to \$640

WHAT OTHERS THINK

for each of its 456,000 utility customers, and \$60,000 for each of its 4,930 employees. That electric utilities require a far greater amount of plant and other assets in relation to annual sales than do other industries is illustrated by a diagram.

It shows that the Union Electric system has \$5.26 of capital invested for each dollar of annual sales. This amount compares with 62 cents for the average manufacturing industry.

One unique feature is a double-page

spread entitled "News Review for 1947." It is in the form of a large calendar with a space of roughly two inches square devoted to each month. High-light news regarding the company is presented in each square with two or three short sentences.

Interesting pictures of company activities are scattered throughout most sections of the report. Separate sections are devoted to the company's sales activities, its department for economic development, and to employees.

The Price We Pay

"**T**HERE is a growing complaint in the Far West that eastern Congressmen are deliberately holding back western power development by the Federal government, on the grounds that it might result in a shift of industries from the Atlantic coast to the Pacific coast states. The complaint is heard most loudly in states such as Oregon and Washington, whose congressional representation is too small to prevail against the big delegations from the heavily populated East.

"That situation is the inevitable consequence of the Federal power policy that was started fifteen years ago. The threat of unmeetable, subsidized competition and expropriation of property virtually stopped power development by private industry. Entire regions became dependent on the Federal government for dams and other facilities. Local control, local initiative, and local pride were lost.

"Prior to that time, new sources of power were developed in the West, and everywhere else, as rapidly as the region could absorb the output. Construction was always well ahead of demand. Private power companies aggressively sought new customers. Investors were eager to put their savings into a stable, expanding business. No one had to deal with Congress or some 'authority' when they wanted electricity. Local money and local enterprise, under public regulation, did the job.

"Now the West is seeing what always happens when centralized government becomes the dominant economic and industrial factor in our lives. All other parts of our country and the rest of the world which have looked to socialized enterprise instead of free enterprise for progress are in the same boat. The decisions as to who can have what, and when, are made by public officials far removed from the areas of individuals affected. That is the tremendous price we pay when we surrender our rights and responsibilities to the Socialists."

—EXCERPT from editorial statement, "Service," published by Kansas Power & Light Company.



The March of Events

In General

ABA Utility Law Section Holds Council Meeting

A MEETING of the council of the section of public utility law of the American Bar Association was held at the Williamsburg Inn, Williamsburg, Virginia, early last month. There were present: T. Justin Moore, chairman, Richmond, Virginia; Ivan Bowen, vice chairman, Minneapolis, Minnesota; Jerrold Seymann, secretary, New York city; Stoddard M. Stevens, New York city; David W. Robinson, Jr., Columbia, South Carolina; William A. Dougherty, New York city; E. Smythe Gambrell, Atlanta, Georgia; Kenneth F. Burgess, Chicago, Illinois; A. J. G. Priest, New York city; Tracy J. Peycke, Omaha, Nebraska; and Francis X. Welch, Washington, D. C.

Frederick G. Hamley of Washington, D. C., chairman of the standing committee to report on progress of public utility law, also was present on invitation of the chairman.

The council noted that since its last meeting in December John Bullington of Houston, Texas, past chairman of the section, had passed away. A motion was unanimously approved by the council authorizing the secretary to send a letter expressing sympathy to Mrs. Bullington.

E. Smythe Gambrell reported on progress made by the special committee on increase in membership and pledged the efforts of his committee to obtain at least 200 new members so as to bring full strength of the section up to 1,000. Principal subject of discussion was the annual meeting to be held in Seattle, Washing-

ton, starting September 6th. After some discussion it was finally agreed that there would be three sessions: one Monday afternoon, September 6th; one Tuesday morning, September 7th; and one Tuesday afternoon, September 7th. The Monday afternoon session is to be devoted entirely to the report of the standing committee to survey and report on developments in the field of public utility law. This is to be followed by speakers representing various industries in the utility field as was done at the 1947 meeting in Cleveland.

Attorneys representing railroads, motorbus, and trucking, communications, electric companies, the gas industry, and aviation interests are planned to contribute to this session.

The Tuesday-morning session is to be devoted to the subject "Federal Power Commission Regulation in the Natural Gas and Electric Industries." The afternoon session will be devoted to the subject "Current Developments in Rate Making." Attorneys prominent in their representation of telephone, transit, and electric utility rate cases are slated to take part at the final session. The identification of individual speakers was left for subsequent announcement, after arrangements have been completed by council officials working on the program. The council adjourned until the next regular meeting, scheduled for Seattle, Washington, Sunday, September 5, 1948, at 4 P.M.

FPC Member Nominated

THOMAS C. BUCHANAN of Beaver, Pennsylvania, was nominated on

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THE MARCH OF EVENTS

April 15th by President Truman to be a member of the Federal Power Commission. A lawyer, Mr. Buchanan was named for the post to which Mr. Truman originally appointed Burton N. Behling. Mr. Behling's name later was withdrawn.

Mr. Buchanan's term on the commission would expire June 22, 1952. The nomination was sent to the Senate.

At the same time Mr. Truman recommended Harrington Wimberly for reappointment for a new 5-year term on the FPC beginning June 22nd.

Mr. Buchanan, a Democrat, formerly served as a member of both the Pennsylvania Public Service Commission and the Pennsylvania Public Utility Commission. He is a veteran of World War I.

Alabama

Light Bills Cut

THE state public service commission last month ordered commercial rates of the Alabama Power Company cut 20 per cent, effective on bills dated after May 1st. Commission President Gordon Persons said it would mean a \$353,000 annual saving for 25,824 customers. Some will get a reduction of as much as 25 per cent, Persons said, but the average will be one-fifth.

The commission also directed the company to change its rules concerning rural commercial rates so that every cus-

tomers will get the benefit of the lowest charge.

Those whose rates were raised when they were transferred from rural to city service will get a refund retroactive to November 1, 1945, the order specified.

Another part of the commission's directive ordered the utility to set up new rates for apartment buildings where several families use the same meter. Persons said the apartment owner should profit from money the company saves by having to read only one meter and collect only one bill.

California

Power Ration Restrictions End

NORTHERN California's drought-created emergency formally ended on April 12th, so far as electric power is concerned. Robert P. O'Brien, emergency power director, lifted all mandatory restrictions on use of electricity.

The suspension of all curtailment was temporary, and restrictions may again be imposed on June 1st, O'Brien warned, if power users become extravagant or if one of the numerous unforeseen contingencies arise.

Daylight saving, which is not under authority of the power "czar," was not affected. Under the law which put daylight saving into effect, it can be terminated before next January only by de-

creed of Governor Warren. The governor made it plain he has no intention of issuing such a decree at this time. After expressing gratification at the removal of power restrictions, he sounded this note of caution:

The present relaxation of restrictions is dependent upon the continuation of daylight saving and the continued use of power from southern California. Secondly, it is apparent that even if this were a reasonably wet year there is serious question as to whether we would have sufficient power to serve our increased population and to attract the new industries that are essential for full employment.

He added that the power crisis accentuated need for completion of the Central Valley project and the full development of our water and other resources.

PUBLIC UTILITIES FORTNIGHTLY

U. S. Representative Clair Engle, Democrat of California, last month proposed to the House Appropriations Committee that an immediate appropriation be made for a transmission line to carry "waste" power south from the Pacific Northwest's Bonneville system. He said the major Bonneville "waste occurs at night and during the summer daylight hours." He estimated it at 2,000,000,000

kilowatt hours of electricity annually. (Advocates of new Columbia river dams contend they are needed because of an actual over-all power shortage in the Pacific Northwest.)

The Congressman suggested the connecting lines would pay for themselves in two years by eliminating the use of \$6,000,000 worth of fuel oil a year for producing electricity in California.

Connecticut

Companies Unite for Future Expansion

THREE Connecticut electrical generating companies last month laid plans for large-scale future expansion of power and light production by acquiring 114 acres and a potential private harbor on Long Island sound at Waterford.

The aim is to avoid duplication of facilities and ultimately to reduce consumer rates. The step was described by Samuel Ferguson, president of the Connecticut Power Company, as the first in the state of Connecticut in which a group of electric companies had joined to meet a common problem. Beneficially affected will be central and eastern Connecticut.

Title to the land, which is located at the entrance to Niantic bay, about six

miles from downtown New London, was taken by the Connecticut Power Company from the Gardiner estate. The approximate purchase price was \$460,000.

The site includes an old granite quarry which, it was understood, might easily be converted into a private harbor where fuel barges to serve the big generating plant could safely anchor on a year-around basis. The site also will offer ample water supplies.

Mr. Ferguson's announcement said that associated with the power company would be the Connecticut Light & Power Company and the Hartford Electric Light Company. He said several years probably would elapse before studies now under way can be translated into actual construction and his statement gave no estimate of the total cost of the completed plan.

Indiana

Impounded Funds Released

THE state on April 15th cleared the way for release of \$1,382,000 impounded from the "yellow coupon" rate case to Indianapolis Railways.

The attorney general's office said it had decided against taking an appeal to the United States Supreme Court in the case which grew out of a state public service commission order making transit tokens four for 25 cents. The company insisted the rate should be three tokens for 25 cents.

During the controversy millions of yellow coupons representing the difference between the fares were issued by the utility. The \$1,382,000 would have been used to redeem the stubs if the company had lost the case.

Company officials said release of the money would prevent "a grave financial situation." They said the money would be applied on an \$800,000 debt to local banks for purchase of 60 new busses last fall and \$600,000 for purchase of 25 busses and 10 Marmon-Herrington trolleys to be delivered in May and June.

THE MARCH OF EVENTS

Kentucky

Gas Company Denied Raise

THE Taylor-Green Gas Company, serving Campbellsville and Greensburg, was denied a rate increase by the state public service commission last month. The firm sought to raise its schedules to yield an additional \$10,674 a year.

The state commission said the company failed to support its application for

the increase with enough evidence. Furthermore, the decision said, Campbellsville and Greensburg have established by proof that the firm's service is "grossly inadequate."

The decision noted that the company loses 11.89 per cent of the gas in its lines through leakage. This is nearly four times as great as the average leakage among other Kentucky gas utilities.

Missouri

Allowed to Suspend Token Use

THE state public service commission on April 16th authorized the St. Louis Public Service Company to increase fares through elimination of the use of tokens on its streetcars and busses, on a temporary or emergency basis, effective April 25th. The tokens had sold four for 35 cents.

The order, granting a plea of the company for immediate revenue relief because of declining business and increased operating costs, will be effective pending completion of a full investigation by the commission, now in progress, to determine the rate-making valuation of the company and the reasonableness of its fares.

Discontinuance of use of tokens will increase gross revenues of the company about \$520,000 a year, it was estimated. Taxes will cut this gross increase to about \$340,000 a year, available toward return on the property, it was said.

The order affected only the sale of tokens by the company. It did not change the present 10-cent cash fare, or the price of weekly and other passes sold by the company.

Gas Service Extension Prohibited

THE state public service commission on April 15th issued an order prohibiting extension of gas service to cities

in southwestern and western Missouri whose distributing companies obtain their supplies from the Cities Service Gas Company.

The order applies to the subsidiary Gas Service Company which serves Kansas City, Independence, and St. Joseph, and other distributing companies obtaining gas from the Cities Service pipe lines. Included are the Springfield Municipal Gas Company; the Missouri Public Service Company serving Sedalia and Nevada; the Missouri Gas & Electric operating in Marshall, Lexington, Platte City, Weston, Tracy, Richmond, and Henryetta; the Carl Junction Gas Company and the Citizens Gas Company of Oronogo.

The order was made at the request of the company. Ben C. Adams, president, and M. R. Power, executive vice president, who attended the hearing, said experiences of last winter and a survey of probable peak-day demand for the 1948-49 winter indicated a serious fuel shortage.

Prospective domestic and commercial customers in eastern Kansas and Missouri areas, they said, would require an estimated 54,161,000 cubic feet of gas which the company is unable to supply since the 26-inch pipe line from the Hugoton, Kansas, field will not be completed.

The only supplementary source avail-

PUBLIC UTILITIES FORTNIGHTLY

able, the applicants said, would be a Cities Service pipe line under construction which would be able to handle only 15,000,000 cubic feet a day for new western Missouri customers.

The curtailment, effective immediately, will prevent servicing any new customers in order that existing supplies will not be impaired for present domestic, commercial, and industrial users.

The order is temporary, pending findings at a hearing on the matter at Jefferson City on May 7th.

Utility Told to Pay Library Tax

A DECISION that a public utility must pay the St. Louis county library tax was handed down last month by Circuit Judge John A. Witthaus at Clayton in a test case brought by County Collector

Willis W. Benson against Union Electric Company of Missouri.

Judge Witthaus ordered the company to pay \$20,818, including \$16,398 tax for 1946 and interest, commissions, and attorney's fees. He overruled a company contention that general powers of the county to tax utilities are not broad enough to include the library levy.

Similar suits seeking about \$8,000 for 1946 were pending against eight other public utilities and railroads which refused to pay the tax. These are the American Telephone and Telegraph Company, Southwestern Bell Telephone Company, and the Wabash, Missouri Pacific, St. Louis-San Francisco, Terminal, Rock Island, and Burlington railroads. Lawyers for the other companies were reported to have agreed to abide by the Union Electric decision.

Nevada

Contract Resolution Adopted

DELAY of action by the California Public Utilities Commission on a proposed contract between the Sierra Pacific Power Company and the Pacific Gas and Electric Company for supplying electric energy to western Nevada points was asked in a resolution drawn recently during a meeting at Reno of the Reno Chamber of Commerce Power Committee and representatives from other nearby Nevada communities.

The resolution was adopted after delegates to the meeting learned that approval of the contract by the California commission would apparently result in western Nevada areas receiving power service on much the same basis as is now in effect.

The meeting last month was the first of

a series designed to investigate possible ways and means to improve the power supply to this section of the state and avoid any recurrence of the recent brown-out of the region because of inadequate supplies of electricity being available.

Delegates were told that the pending Sierra Pacific-PG&E contract provides for the California utility to continue to supply the majority of Sierra Pacific's needs for the next sixteen years at least, and on completion by the private firms of another transmission line over the Sierra Nevadas, the contract would be extended for in the neighborhood of another fifteen years.

It was urged in the resolution recently approved that the commission hold up its approval of the contract until surveys can be completed in Nevada.

New York

Rate Adjustment Sought

THE Brooklyn Union Gas Company, which has an application for a gas

rate rise of \$3,575,000 a year pending before the state public service commission, recently asked Commissioner Ernest A.

THE MARCH OF EVENTS

Bamman for permission to increase or decrease its rates as the cost of fuel is raised or lowered.

Jackson A. Dykman, counsel for the company, declared that "there is an indication that there will be an increase in the price of coal because the insatiable Mr. [John L.] Lewis [president of the United Mine Workers] is not yet satisfied," adding that that was the reason the company sought permission to adjust its rates as coal prices changed.

Back of the petition for a rate rise, according to John A. Paterson, comptroller of the company, were increases in labor costs, because of wage rises, plus

the hiring of new personnel, and new costs because of extension of facilities and higher prices of materials. He estimated that coal consumption this year would cost \$464,794 more than last year, and that the 1948 coal use would be 786,940 tons compared with 657,820 tons used in 1947.

The increase asked represents a rise of 10 per cent above present rates. The company received two temporary increases last year. The effect on consumers' gas bills was an 11 per cent increase in rates, and for those who used gas for home heating the increase was estimated at 31 per cent.

North Carolina

Wins Right to Increase Rates

THE Carolina Power & Light Company recently won the right to put through a rate increase for its large industrial customers, but not as much of an increase as the company had sought. The state utilities commission said it was allowing CP&L to jump its rates for big industrial power users, mainly textile mills, through the use of a fuel clause. Under the clause, the rate increases as the company is forced to pay more for its coal.

Carolina Power & Light, through its attorneys, had asked for a set increase in rates for every 10 cents that the price of coal rises above \$6 a ton. The commission, facing objections to the increase

by 22 textile mills, pegged the base coal price at \$7 a ton instead. In so doing, the commission allowed CP&L a gross revenue increase of around \$458,000 a year and a net increase of about \$247,000. Had the firm's petition been approved in full, the gross increase in revenue would have amounted to \$858,000 and the net increase \$470,000.

The increase was to go into effect immediately. The commission, however, reserved the right to alter its ruling on the basis of information furnished it by Carolina Power & Light concerning the company's profits. The firm was ordered to file with the commission four quarterly income statements beginning with last March 31st. The statements are to show revenue and expenses in detail.

Ohio

Emergency Order Upheld

THE state supreme court last month unanimously upheld the validity of an emergency order of the state public utilities commission, adopted September 15, 1947, authorizing the curtailment of gas consumption to meet the acute shortage of last winter.

Action of the utilities commission in promulgating the emergency was predicated upon its exercise of police powers for the protection of the health and safety of the general public. The decision is regarded as far-reaching in that it takes precedence over existing contracts between municipalities and utilities for the furnishing of gas service.

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The order adopted by the commission, adopted in anticipation of the gas shortage, provided that the utilities be prohibited from supplying natural gas to any consumer who already was heating with other fuels.

Suit was instituted by the city of Akron against the East Ohio Gas Company, and while conceding that the order of the commission was "reasonable and necessary" in the "interest of the health, safety, and welfare of the people of Ohio," the city contended that the utilities commission had no power to alter or amend its gas contract with the East Ohio Gas Company.

Council OK's Fare Boost

THE city of Akron and the Akron Transportation Company recently came to an apparent agreement on a fare increase, paving the way for settlement

of a labor dispute which had kept busses off the streets of the city for two weeks.

Council, in a recessed session on April 14th, approved an 8-point proposal calling for better service, arbitration on new service, lighter loads on busses, and ultimately a new-type franchise with the company.

"We had hoped for a more liberal offer, but this one is not too bad," said Ralph F. Turner, chairman of the council's public utilities committee, when he recommended the proposal to council.

Law Director Roy E. Browne was directed to fashion the eight points into the form of a franchise amendment.

The company subsequently refused to accept a clause in the city's proffered settlement that would terminate the company's franchise November 30th, at which date only a little more than seven years of a 15-year franchise would have elapsed.

Pennsylvania

Fare Suit Dismissal Denied

ASPECIAL 3-judge panel last month denied the motion of Philadelphia Transportation Company attorneys and the state public utility commission for dismissal of the city of Philadelphia's suit to revoke transit fare increases which went into effect March 21st.

At the same time, the panel took no action on the city's motion for a pre-

liminary injunction to halt the fare rise.

Meantime, the temporary restraining order requiring PTC to issue reparation slips good for rebates if the rate boost is rescinded remained in force. The order for the issuance of the rebate slips was originally made by Judge Ganey, on petition of the city of Philadelphia, after the state commission granted the fare increase without a public hearing.

Rhode Island

Utility Bill Introduced

SENATOR William J. Thompson of Cranston, the GOP majority leader, in effect served notice on the Democratic state administration last month that he is not willing to go along with Governor John O. Pastore's proposal to give the public utility administrator a year in which to render a decision in rate cases.

He introduced a bill which merely provides that in the event an appeal is taken from an administrator's rate order, the rates in the order would apply pending a decision on the appeal by the public utility hearing board.

The bill has no retroactive provision, and it appeared unlikely that it would apply in the present telephone rate case in which the telephone company has ap-

THE MARCH OF EVENTS

pealed rates approved by the administrator. Early last month, the Democratic house passed the administration bill giving the public utility administrator a year, instead of a maximum four months, to investigate rate cases. The bill was amended from the floor specifically to provide that

rates recently approved by Administrator Kennelly for the telephone company would take effect pending decision of the appeal.

The present law is not clear as to what rates take effect pending appeal from Kennelly's rate order.

South Carolina

Santee-Cooper Rehearing Denied

THE Securities and Exchange Commission recently turned down a petition of the South Carolina Public Service Authority for a rehearing on the proposed sale of the South Carolina Power Company of Charleston, to the South Carolina Electric & Gas Company.

The authority (Santee-Cooper) had protested a March 26th order of the commission that would permit Commonwealth & Southern Corporation to sell the 800,000 shares of common stock of the power company to South Carolina Electric & Gas in preference to Santee-Cooper.

Santee-Cooper had protested the proposed sale to the electric company before the state public service commission, SEC, and the Federal Power Company, and

had sought to purchase the power company as additional facilities for the publicly owned authority.

Meanwhile, Senator O. T. Wallace and Mayor William McG. Morrison, both of Charleston, who have supported Santee-Cooper throughout the hearings, plan to carry the issue to the state supreme court. They have filed formal notice of intention to appeal from Circuit Judge G. Duncan Bellinger's decision upholding the public service commission order authorizing financing proposals of the electric company for purchase of the power company.

FPC now has before it the application for purchase by the electric company, and was reported to be the only agency from whom approval must come to enable South Carolina Electric & Gas to proceed with the acquisition.

Washington

Pay Increase Awarded

AN arbitration board last month awarded 1,900 Seattle Transit System coach operators an 8-cent-an-hour pay increase. The award boosted pay of the operators from \$1.42 to \$1.50 an hour.

The transportation commission announced that "there is a strong possibility we will have to have an increase in fares" because of the pay raise. Louis K. Lear, acting chairman of the commission, said an immediate survey had been ordered "to determine if a fare increase . . . will

give us enough increased revenue to keep the system in the black."

Before arbitration was begun, both the Seattle Transportation Commission and the Amalgamated Association of Street Electric Railway and Motor Coach Employees of America, Division No. 587, had agreed to accept the arbitration board's findings.

The pay increases are retroactive to March 1st.

The award was reached by an unanimous decision of a 6-member arbitration board set up March 22nd. Three members represented labor and three industry.



Progress of Regulation

Transitory Effect of Telephone Construction Program Considered in Rate Proceeding

A RATE increase for the New England Telephone & Telegraph Company has been authorized by the Rhode Island Public Utility Administrator. The new rates are planned to produce a return of 5.6 per cent on a rate base reflecting net investment applicable to the intrastate portion of the company's plant.

Higher wages and higher material costs were presented by the company as reasons for a substantial rate increase. The administrator thought that the company's estimate of needed revenues was overstated.

The company is engaged in an expansion program and is converting from manual to dial operation. The administrator cut down allowances for various items, such as maintenance costs, on the ground that they represented abnormal and nonrecurring expense. Additional maintenance expense results from carrying on operations during the conversion program.

Economies to result from the conversion program were also considered, and the administrator reviewed operating results in Rhode Island, New England as a whole, and the Bell system throughout the country during the period from 1922 to 1946, inclusive. He saw a striking parallel between the situation before and after a 1925 telephone rate case and the situation and circumstances at present. He said:

Then, as now, the operations of the company were widely affected by an extensive construction program, which necessitated

the attracting of large amounts of capital. If the present construction program throws operating expenses out of gear, it must have done so then. If it is causing nonrecurring expenses now, it must have done so then. If, following this rate case, construction work in progress will cause the rate of return to grow when the plant goes into service, it must have done so during the years after the 1925 rate case. If revenues will increase and expenses decrease in the near future in Rhode Island, they must have done so then.

In 1924 the reported earnings equaled 3.3 per cent, while in 1925 (the year of a rate increase) earnings jumped to 6.1 per cent and rose rapidly without interruption to 12 per cent by 1929. He said that if completion of the construction program brought a great increase in earnings in the years following 1925, the near future should bring a moderate increase in earnings.

He said that it was clear that the adverse effect of a construction program upon operations is transitory and that it diminishes and disappears, whereas the beneficial effects of expansion soon make themselves felt by way of increased revenue.

After discussing arguments for and against the inclusion of plant under construction, property held for future use, and miscellaneous physical property in the rate base, the administrator included 50 per cent of these items.

The administrator ruled that the depreciation reserve should be increased in order to restore a portion of the reserve deleted by the management of New Eng-

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land during the year 1921 when Providence Telephone Company was merged.

Western Electric prices for equipment supplied to its affiliated operating company were rigorously examined. The telephone company, said the administrator, bears the burden of proof as to the fairness of these charges. He felt that the company had failed to sustain that burden. However, it seemed to be impractical to dismiss the application for a rate increase because of this. He made no deduction from plant account on account of Western Electric prices because to do so, he felt, it would be necessary to act somewhat arbitrarily and without the benefit of necessary information.

The license contract between New England and the parent, American Telephone and Telegraph Company, was also examined. The administrator criticized payments measured solely on the basis of $1\frac{1}{2}$ per cent of gross revenue. He reduced the claim for payments under this contract with the statement that at least 15 per cent of the costs for license services were properly chargeable to holding company activities.

A substantial amount of the claim for relief and pensions was disallowed after the administrator stated, among other things, that present-day subscribers were being asked to bear an operating cost in connection with pension payments that would have been taken care of in the past if the provisions and promises of a 1913 pension plan had been properly honored and fulfilled by the New England Company.

The company was permitted to place in effect an extension of its extended-area service. One of the reasons for this was the elimination of large expense incurred in keeping track of 5-cent and 10-cent toll messages.

The administrator followed an opinion of the attorney general holding that he was without authority to order the company to continue rate discounts to municipalities. He followed another opinion of the attorney general that it would be improper to entertain a request by a hospital association for special rates to hospitals in the proceeding before him. *Re New England Teleph. & Teleg. Co. (Formal Docket No. 458).*



Competitive Bidding Not Required Where It Would Increase Costs

THE Colorado commission says that, while it recognizes the desirability of competitive bidding, it has not concluded that public interest demands that this rule be adhered to in all instances. Each case should be considered on the facts.

This view was expressed in dealing with an application of Greeley Gas Company for authority to sell bonds. It appeared to the commission that the public sale method would cost the company considerably more than if the bonds were sold privately to the holder of outstanding bonds which are to be retired. The commission said:

The price offered and the yield contemplated are favorable, and neither this commission nor company has any assurance that the bond market will be as favorable in the

future as it is today. Necessarily, preparation of documents and time required for investigation by interested underwriters would postpone the sale of the proposed bonds for a considerable period of time. Then, there could be no definite assurance as to the price at which the bonds could be sold. It would also seem that the society which now holds the bonds heretofore issued would be more receptive to the new issue than would the average investor. The yield to the investor is not out of line with yields currently obtained from similar bonds recently sold.

These are to be first mortgage 4 per cent bonds and are to be sold at 100 per cent of principal plus accrued interest. Maturing bonds are to be payable at par and, if called prior to maturity, a premium is to be payable of 5 per cent if called during the first ten years, 4 per cent if called during the second ten years,

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and 3 per cent if called any time thereafter before maturity.

The proceeds are to be used to retire outstanding bonds and to provide funds

for construction, completion, and improvement of facilities. *Re Greeley Gas Co. (Application No. 9081, Decision No. 30086).*



Parent Coöperative Corporation Is a Public Utility

DAIRYLAND POWER COÖPERATIVE, which supplies electricity to twenty-four member coöperative associations for distribution by them to the public, is held by a circuit court of Wisconsin to be a public utility. The question as to public utility status arose in a labor dispute under the Wisconsin law forbidding strikes by utility employees.

Judge Reis, delivering the opinion of the court, held that the law is unconstitutional and he prohibited the Employment Relations Board from going ahead with compulsory arbitration.

Dairyland's principal contention to sustain its premise that it is not a public utility under the compulsory arbitration law was that it sells only at wholesale to member coöperative associations.

The court did not regard Dairyland's systematized operation as similar to

Union Falls Power Co. v. Oconto Falls (1936) 221 Wis 457—a sale at wholesale to one municipality. He said that Dairyland and its member associations constitute an allied and associated single group. The whole link-up reflects one organization, the business of which is to get electricity to the public embraced in the membership of these constituent associations.

Rates of the organization have been exempted from regulation by the public service commission. Dairyland possesses no certificate of public convenience and necessity and no indeterminate permit. The coöperative is not obliged to file a state income tax return. The judge did not think these facts prevented the organization from being classified as a public utility. *State ex rel. Dairyland Power Coöperative v. Wisconsin Employment Relations Board.*



Financing Must Be Planned to Avoid Idle Funds

THE New York commission approved the issuance of \$5,500,000 of first mortgage bonds and \$3,500,000 of preferred stock after disapproving a request by New York State Electric & Gas Corporation for authority to issue \$10,500,000 bonds and \$6,000,000 preferred stocks.

Commission objections to the larger issues at this time were based upon criticisms of items included in proposed capital construction program and the retention of a large amount in liquid form as demand deposits not drawing any interest.

The construction program submitted by the company included items which might be chargeable to operating expenses or reserves and not to capital funds. Cycle changeover, said Chairman Maltbie speaking for the commission, is an

operating expense and at most could be spread over only a few years. Federal income taxes for past years might call for cash but would have no place as a purpose for which bonds and preferred stock might be issued.

The commission has stated in other instances, said Chairman Maltbie, that it is the obligation of all utilities to secure funds at the lowest possible cost, and to allow millions of dollars to lie idle, upon which interest is being paid and which are not earning any interest, "is not thrifty, prudent, or wise." He continued:

One way would be for the company to issue short-term obligations or make loans at the banks which would carry them through 1948 or for a considerable period in the future and then issue securities and pay off the loans. The interest rates would be appreciably less than the average on the

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bonds and preferred stock which the company proposes to issue and the only offset would be a possible increase in interest and dividend rates when the loans were funded. However, many other companies have followed this practice and are following it now which indicates that the plan is not considered chimerical or so devoid of merit as to be promptly dismissed.

Another solution, he said, would be the use of income beyond \$1,000,000 annually, as proposed, for three years. This, he said, was thoroughly practicable as shown by large dividends paid to the holding company in 1947 and in the first two months of 1948. On the question of financing methods, he said further:

... the long-term debt represents at present 59.1 per cent of the par value of capital stock and mortgage debt. So far as this relationship is concerned, the bonds are legal investments for savings banks. The proposed

financing, if carried out simultaneously or practically so, would keep the bonds on the legal list by a rather thin margin and, following the experience in other cases, the same result could be obtained by issuing the bonds first and then the preferred stock closely thereafter. The advantages of this plan are obvious and have been demonstrated in many prior issues. If the preferred stock is issued first, the bidders at public sale do not know what the prior requirements will be as a bond issue is to follow, but if the bonds are issued first, the prior obligation is then established and purchasers of preferred stock know what the total obligations are under present circumstances. It is believed that the usual method should be followed in this case. Whatever bonds are to be authorized should be sold and immediately thereafter if the company wishes, an amount of stock determined herein, should be offered for bids.

*Re New York State Electric & Gas Corp.
(Case 13468).*



Holding Company Dissolution Approved although Common Control of Unrelated Properties Survives

A PLAN providing for the dissolution of Public Service Corporation of New Jersey was approved by the Securities and Exchange Commission although it did not disturb the combination of electricity, gas, and transportation companies under common control. The commission concluded that dissolution of the holding company made inapplicable the literal standards of § 11(b)(1) of the Holding Company Act.

It believed the economic and financial reorganization standards of § 11 of the act to be interdependent. Consequently it must weigh policies against each other and against the needs of particular situations. The holding company had taken the position that the requirements of § 11(b) of the Holding Company Act related only to its corporate structure and not to the continued combination of systems rendering electric, gas, and transportation services.

The commission observed that the undue complexities in the corporate structure of the holding company and its system stemmed mainly from the existence of an unnecessary holding company and

from the characteristics of the numerous security issues in the structure, and the cross-holdings of these securities within that structure.

The holding company had outstanding a large amount of Perpetuals, high dividend rate noncallable preferred stock and common stock. The burden of servicing the capital structure of the holding company had been borne almost entirely by its principal subsidiary.

The task of the investor in appraising his position was rendered unnecessarily difficult not only by these numerous layers of securities in the system, and the leverage thus injected, but also by the fact that there were many cross-holdings at the holding company and operating company levels. Furthermore, the Perpetuals posed further difficulty in that they purported to be debt security but lacked the fundamental attribute of a debt inasmuch as the face amount was never due and payable, not even in the event of default in payment of interest.

The large amounts and noncallable nature of the outstanding securities of the companies which collateralize the Per-

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petuals resulted in substantial loss of economies to the operating companies in raising capital. The commission said:

The Public Service system exemplifies many of the evils which this commission was directed by the act to eliminate. Public Service being a subsidiary of United, these evils affect not only the security holders and consumers of Public Service, but the security holders of United as well. Thus, we find that the unique character of the Perpetuals, the existence of numerous classes and series of debt and preferred stocks with varying rights, the cross-holdings of securities and the numerous layers of securities which PEG's earning must service, render unnecessarily difficult an investor's appraisal of his assets or earnings position at the Public Service or United level (§ 1(b)(1)).

The commission reiterated its condemnation of the presence of senior securities issued by holding companies where the primary base on which they rest is common stocks of operating utilities, which in turn are junior to publicly held senior securities.

Dissolution of the holding company was considered the first step in eliminating the complex security structure. Also, it was observed that the holding company performed no management functions which could not be performed by operating company managements. Elimination of the holding company would result in system savings.

An exchange of preference common

stock, rather than an all common stock program, was believed to preserve the greatest value to the security holders. The preference common stock, by preserving the relative priority in dividends and affording opportunity to participate in increased earnings at the common stock level, would fully compensate the holders of preferred stock without requiring the allocation of earnings to them as great as those which they have been enjoying.

The commission made it clear that standing alone the advantages to be found in the preference stock would not convince it that such securities should be permitted. Although it believed that a fair and equitable plan could be formulated without recourse to the securities, the indicated position of the parties and participants made remote the likelihood of enforcement of any such plan in the foreseeable future. Therefore, it said, it had to weigh the attainment of the statutory objective of achieving the ends of § 11(b) of the act as soon as practicable against the possible detriments accompanying the lack of compliance with the generally applicable standards of § 7 of the act. Its discretion was exercised in favor of the former. It was believed that the positive benefits of the plan far outweighed the accompanying detriments. *Re Public Service Corp. of New Jersey et al. (File Nos. 59-86, 54-148, Release No. 8002).*



Membership Corporation May Oppose Extension Into Its Unoccupied Territory

THE supreme court of Indiana has decided that the state commission cannot authorize an electric company to extend its lines into territory of a rural electric membership corporation without proof that the membership corporation is not ready, willing, and able to serve at reasonable rates. The court said:

It is our opinion that as long as REMC conducts its business in a frugal manner and furnishes adequate service the law forbids competitive service by any other public utility in its territory.

The territory involved adjoins a city served by the electric company. There
MAY 6, 1948

was evidence that this territory would be built up and ultimately annexed to the city. The court said, however, that there is no provision in the Rural Electric Membership Corporation Act against a membership corporation furnishing electricity to a community which in its nature is urban if it is outside a city or town in excess of 1,500 inhabitants.

The question whether the membership corporation was a public utility was also raised. The legislature had granted the power of eminent domain and the right to use public highways and to monopolize the territory wherein it was authorized to

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operate. This was considered an indication that the legislature was attempting to authorize the creation of a public or quasi public enterprise, as such powers could not have been conferred for private use. The court continued:

To hold that said § 55-4409 confers upon REMC the right to arbitrarily refuse service or to adopt unreasonable bylaws as to membership is not necessary. By electing to be organized under this act, and by submitting to regulation it must be considered that

REMC has devoted its property to a public use and is holding itself out as a public utility. In our opinion the entire purport of the Rural Electric Membership Corporation Act leads to the conclusion that it was for the purpose of affording a means of creating a public utility corporation such as REMC to engage in the electrical energy business, and, as it provides, to encourage the "fullest possible use of electric energy" in its territory.

Kosciusko County Rural Electric Membership Corp. et al. v. Public Service Commission et al. 77 NE2d 572.



State Commission Refuses to Follow Interstate Commission in Rate Case

THE application of a freight bureau, representing several carriers, for a rate increase on intrastate shipments of soda ash was rejected by the Louisiana commission on the ground that the proof was inconclusive.

The proceeding grew out of a companion hearing before the Interstate Commerce Commission, which had raised interstate rates and then proceeded to leave it to the Louisiana and Texas commissions to make modifications in accordance with their findings as to intrastate traffic in those states.

The carriers relied solely on the record in the interstate proceeding and the commission observed that under such circumstances that record must be examined critically.

The commission did not find existing rates to be unreasonable, noncompensatory, or discriminatory, and then as if to shake off the yoke of Federal domination stated:

Under these conditions, for this commission to voluntarily submit to the findings of

the Interstate Commerce Commission in this matter, would be tantamount to abandoning its constitutional and statutory duty under its state statutes, and amount to usurpation by Federal authority of the state's inherent and normal authority to regulate traffic wholly within its borders. . . .

The commission then applied the proposed rate to several areas where shipments would be made and found that it would be much more discriminatory than the rate currently in force. It found that the cost of a 174-mile shipment would be 21 cents; the cost of a 299-mile shipment, 22 cents; and the cost of a 692-mile shipment, only 29 cents.

The commission commented:

The only premise under which such an adjustment could be imposed would be the frank abandonment of all consideration of distance and the open acknowledgement that the purpose of this entire proceeding is to attempt to equalize, beyond all reasonable bounds, geographical locations in violation of heretofore honored principles of rate making.

Re Texas-Louisiana Freight Bureau (No. 4794, Order No. 4779).



Carrier Operation under Sham Lease Ended

THE Ohio commission, after investigating the activities of several motor carriers operating on a lease arrangement, issued an order requiring the carriers to cease unauthorized operations.

The commission found that several certificated carriers had been sending a large

number of shipments through an unauthorized carrier which had complete control over them until delivery. A verbal lease arrangement was described as being mere subterfuge, as the operations were not under the control of the certificate holders either individually or collectively.

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The fact that the certificate carriers divested themselves of any control over the shipments was held determinative of

the true status of the motor transportation service being rendered. *Re Houts et al. (I and S Nos. 188-190).*



Other Important Rulings

THE Georgia commission authorized a telephone company to increase rates for exchange telephone service upon conversion from magneto to automatic dial service where the proposed rate would yield a return of about 3.9 per cent. *Re Southeastern Teleph. Co. (File 19378, Docket 8795-A).*

A request by a warehousemen's association for a blanket amendment to all household-goods carrier certificates, so as to establish a uniform definition of the term "household goods," was denied by the Pennsylvania commission, which held that the advantages of uniformity were outweighed by the confusion and injustice which the amendment might cause. *Re Amendment to Rule 201 of Truck Regulations.*

The Pennsylvania commission, in dismissing a certificate application, ruled that it has no jurisdiction over a transportation service in which a carrier proposes to carry passengers to and from stores on shopping tours at no charge to the passenger but for a commission on purchases made by them at the store. *Re Sanders (Application Docket No. 70891).*

The Maine commission authorized an electric company to increase its rates so as to produce a net earning of 5.2 per cent on net capital investment. The decision stated that an allowance of practically forty-five days' operating expenses was adequate for working capital. *Public Utilities Commission v. St. Croix Electric Co. (FC No. 1272).*

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Public Utilities Reports (New Series) are published in five bound volumes annually, with an Annual Digest. These Reports contain the cases preprinted in the issues of *PUBLIC UTILITIES FORTNIGHTLY*, as well as additional cases and digests of cases. The volumes are \$7.50 each; the Annual Digest \$6.00. *Public Utilities Reports* also will subsequently contain in full or abstract form cases referred to in the foregoing pages of "Progress of Regulation."

LEWISTON GAS LIGHT CO. v. ITSELF
MAINE PUBLIC UTILITIES COMMISSION

Lewiston Gas Light Company
v.
Itself

F. C. 1274
February 26, 1948

I NVESTIGATION of *proposed increase in gas rates; higher rates authorized.*

Valuation, § 293 — Working capital — Money in prepayment meters.

1. Money in prepayment meters, although not collected until some thirty days after deposit, should be considered in estimating working capital of a gas utility, p. 146.

Expenses, § 80 — Work on consumers' premises.

2. Profit on sales of merchandise and jobbing should bear the cost of adjusting, repairing, and servicing gas appliances instead of including the servicing charge as an operating expense to be borne by customers generally, p. 147.

Rates, § 144 — Relation to cost — Gas.

3. Gas should be sold at a price to do the seller some benefit, as otherwise some consumers must help carry the more favored customers, p. 148.

Return, § 92 — Gas utility.

4. A return of approximately 6 per cent was considered fair in fixing gas rates, p. 148.

Rates, § 288 — Minimum charge — Gas.

5. A minimum charge to gas customers is both fair and necessary, p. 148.

Rates, § 308 — Charge for restoration of service.

6. A charge for restoration of service is reasonable where service has been discontinued for nonpayment of bills, fraudulent use of gas, or any infringement of rules and regulations and for restoration of service where any consumer has service disconnected and restored at the same address within any twelve months' period, p. 149.

APPEARANCES: W. B. Skelton, Lewiston, for petitioner; Fernand Depins, Corporation Counsel, Lewiston, for city of Lewiston; Israel Alpren, City Solicitor, Auburn, for city of Auburn.

By the COMMISSION: On January 14, 1948, Lewiston Gas Light Company, a corporation existing under Chap 147 of the Public Laws of 1853 as amended, set forth that it is a public utility engaged in the manufacture

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and distribution of gas in the cities of Lewiston and Auburn. The company complained that its present rates were inadequate in that they did not provide compensation commensurate with the cost of service to its customers using a very small volume of gas or no gas at all; nor commensurate with the cost of service to customers using gas in the higher brackets; it desired to eliminate Class A, Sheet 4, Optional Gas Water Heating rate as it was using so little as to be practically obsolete; that the charge for restoring services made necessary by the acts of customers whose meters are removed and subsequently replaced be permitted.

Hearing was ordered on the petition, to be held February 2, 1948, at city hall in Lewiston and notice was ordered to be given to the parties interested. At the time and place of the hearing, notices were proved to have been given as ordered, and the appearances noted as above.

Lewiston Gas Light Company has had no major increase in its rates since 1927. The company has enjoyed good management and superintendence, has been progressive, constantly sought new business, and has rendered very satisfactory service. It is one of the very few companies in the state of Maine which has had sufficient capacity to take care of all the demands of customers.

It finds itself at the present time confronted with increased labor costs, larger fuel costs, and costs for materials and supplies which it can no longer absorb. The return on the investment has reached the vanishing point and the company, which is now engaged in putting in increased gas ca-

capacity, comes to the Commission for relief.

An examination of the prior cases which the company has had before this body reveals that Lewiston Gas Light Company started in 1853 and 1854, has as of December 31, 1947, on its books, property representing an investment of \$1,418,615.95, which sum represents as accurately as possible the capital assets of the company, giving effect to additions and retirements which have been made in the due course of its operations (see FC 195, PUR1921A 561, U.566, U.1007, U.1422). During its existence, the company has accumulated a reserve for depreciation of \$407,338.97. Considering the present condition of the plant which is excellent, and its ability to render service which is not questioned, this sum representing 28 per cent of the fixed assets would seem to be entirely adequate. In accordance with the prevailing custom, the company asks for a return on the fixed assets, minus the reserve for depreciation.

According to an exhibit filed by the company, it is estimated that during 1948, various additions and retirements will be made, resulting at the end of the year in the fixed assets of the company being carried at \$1,535,615.98, with a reserve for depreciation of \$432,197.04. This would leave an estimated book value of plant December 31, 1948, \$1,103,418.94. To this should be added a sum for working capital to arrive at the so-called rate base.

[1] In Exhibit C, the company estimated its operating expenses for 1948 at \$503,000. The company has some prepayment meters which it es-

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timates will produce about \$1,700 per month. This money does not come in until some thirty days after deposit but we believe it should be considered in estimating working capital. Considering all the facts, it would seem that \$65,000 for working capital would be sufficient and we believe that a rate base of \$1,168,500 is fair and equitable.

[2] The company estimated its total operating expenses for 1948 excluding Federal income tax, at \$503,428.50. The Commission's engineer, Mr. McDowell, has gone over these accounts with the cashier of the company, Mr. McOsker. Mr. McDowell notes that Item 600 "Works Superintendence" for 1948 was estimated at \$11,910. It appears from investigation that the superintendent's and assistant superintendent's salaries to the extent of \$6,800 are charged to Works Superintendence but that about one-half of their time is devoted to construction work. A substantial item of \$15,991 "Work on Consumers' Premises" appears in the 1948 estimate of operating expenses. Work performed under this item consists of installing, adjusting, and servicing gas appliances on the consumers' premises and it makes no difference whether the appliance was bought from the company or anyone else. The cost of installing or setting up of appliances is included in the purchase price when bought from the company and such costs are charged to the merchandising accounts — Nonoperating Revenues. It would seem that this servicing charge should not be made so that it is borne by the customers of the company. Why one customer having a gas stove should pay for fixing another

customer's gas refrigerator is not clear. A customer with a gas water heater should not be called upon to help pay in a rate for fixing, mending, or replacing appliances of their neighbors. *Re Potomac Edison Co. (Md 1935) 7 PUR NS 135, 150.*

In 1947, the company made a profit on the sales of merchandise and jobbing of \$61,512.10. It is fair to all consumers that this nonoperating profit should bear the cost of adjusting, repairing, and servicing gas appliances. It is, therefore, our opinion that this item is \$13,000 too large as carried in Exhibit D.

Salaries of general officers have increased from \$12,700 in 1946 to \$18,700 in 1947, which latter figure includes a new assistant manager at \$6,000. It is understood that the present general manager, who has been with the company for many years and who is in no small part responsible for the excellent service which the company has rendered, will retire in the not too far distant future and that the assistant manager will then assume his duties.

The company figures its reserve for depreciation at 2.13 per cent of depreciable assets which is the same figure allowed by the United States Treasury. According to the records available to the Commission, there has been but one year (1923) when the amount accrued did not exceed the amount used. We are of the judgment that this charge to operating expenses could be somewhat reduced in estimating needed revenues.

An item for legal services is projected at \$2,800 for 1948. This presumably covers legal fees and expenses for the present rate hearing,

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which we hope is nonrecurring. In view of past charges, it is our opinion that \$1,300 annually will provide reasonable funds for law expense.

Item 413 (Uncollectible Operating Revenues) is estimated at \$400 for 1948. This item in past years has been nearer \$200 which we consider sufficient.

It is the Commission's judgment that there can be effected a decrease in the estimates of the company's expenses for 1948 of some \$30,000 which would be fair and equitable both to the company and its customers. Meanwhile, the costs of fuel have gone up some \$15,000 to \$16,000 over the figures submitted, which would indicate that the net decrease from the company's estimated expenses should be some \$14,000 to \$15,000.

In other words, to provide the company with the funds needed to pay operating expenses and taxes, but not including Federal income tax, the company should have revenues of at least \$485,000 and must, in addition thereto, have funds to pay Federal income tax and a return to the investors.

[3] The company estimated that with its proposed rate schedules its revenues for 1948 would approximate \$615,800. In its optional rate with house heating, a final bracket of 6.5 cents per hundred cubic feet was proposed, in its general rate schedule, a final bracket of 6 cents per hundred cubic feet. An examination of the accounts of the company leaves grave doubt that it can sell gas at 7 cents per hundred cubic feet and make any profit on the transaction. Production expenses in 1947, which include nothing for transmission, operating expenses, or return, show a cost of gas at

6.2 cents per hundred cubic feet. Since these figures were submitted, coke has increased in cost, oil has increased the cost 2 cents per thousand cubic feet of gas. Gas should be sold at a price to do the seller some benefit, otherwise some consumers must help carry the more favored customers. We believe that 7 cents per hundred cubic feet is as cheap as the company can afford to sell gas.

In its original computation as to the revenue to be produced, a slight error was made by the company. Mr. McDowell, in going over these figures, indicates that with the final bracket for the sale of gas stopping at 7 cents per hundred cubic feet, that in 1948 the company's gross income should be approximately \$621,000.

[4] In order to provide funds for the present Federal income taxes, to give the investor a return of approximately 6 per cent and to allow funds for the operation of the company will require a gross income of about \$600,000. The rates as filed are expected to produce about \$621,000.

[5] If we decrease the minimum charge from \$1.20 to \$1.10 and for which the customer can get 200 cubic feet, it represents a decrease of about \$15,000 per annum. The company has no minimum charge at present and customers who use no gas at all, ranged from 658 in February, 1947, to 268 in June 1947. Without doubt many people who have so little use for the service will discontinue when a minimum charge is placed upon them. That such a charge is both fair and necessary is unquestioned. How many customers will be lost is unknown. It may be well in excess of \$2,500 per annum.

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[6] The company requests a small charge for restoration of service which seems entirely reasonable. It is, therefore, *ordered, adjudged, and decreed*

(1) That Rule K of the Lewiston Gas Light Company's rules and regulations be amended to read as follows: Rule K. "a charge of \$2 will be made for restoration of service where service has been discontinued for nonpayment of bills, fraudulent use of gas or any infringement of these rules and regulations and for restoration of service where any consumer seasonal or otherwise has his service disconnected and restored at the same address within any twelve months' period."

(2) That new schedules be filed, amending those submitted by having the last bracket stop at 7 cents per

hundred cubic feet. A minimum of \$1.10 per month for which customer may have 200 cubic feet gas.

(3) In Schedule Class A, Sheet 3, Third Amendment, Optional Rate (with House Heating) be combined with optional rate (with Kitchen Heating) so that the same charge shall apply for both uses, the last bracket being 7 cents per hundred cubic feet, same minimum as set in paragraph (2).

(4) Schedule A, Sheet 4 Original, known as Optional Gas Water Heating Rate, be canceled.

(5) In other respects said new schedules shall not vary materially from those filed in this case.

(6) New rates shall become effective March 1, 1948.

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Re Illinois Commercial Telephone Company

33702

January 29, 1948

I NVESTIGATION of *proposed increase and revision of telephone rates; revised rate schedules approved.*

Valuation, § 101 — Accrued depreciation — Inspection method.

1. The inspection method does not reveal accrued depreciation that actually exists in property, p. 152.

Valuation, § 26 — Additions since prior hearing.

2. Telephone plant placed in service subsequent to an earlier valuation date and during rate proceedings is properly included in the rate base, p. 153.

Valuation, § 39 — Reproduction cost.

3. A rate base for a telephone company was fixed by giving effect to current reproduction and other intangible elements of value to the extent pertinent in the case at hand, although the Commission could not put much

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emphasis on a reproduction cost appraisal in view of the nature of the appraisal, including observed depreciation, and the relative recency of an increase in prices to current peak levels, p. 153.

Return, § 26 — Reasonableness — Higher money cost.

4. The Commission, in fixing telephone rates, must give consideration to demands of investors for higher interest and dividends than in the past, p. 154.

Return, § 111 — Telephone company.

5. A telephone company was held to be entitled to earn a return of $5\frac{1}{2}$ per cent provided it could do so without resorting to rates so high as to cause a substantial loss in the number of customers and the usage, p. 154.

By the COMMISSION: On February 24, 1947, 68 PUR NS 453, the Commission entered an order canceling and annulling the schedules of rates filed by Illinois Commercial Telephone Company (hereinafter sometimes referred to as "petitioner") on March 28, 1946, which schedules set forth advances in rates and revisions in rules and regulations as stated in the general and local exchange schedules of the petitioner. In the said order the Commissioner retained jurisdiction of the subject matter and the parties hereto for the purpose of issuing such further order or orders as the Commission might deem necessary.

In said order, the Commission found a projected net operating income for the year ended December 31, 1946, in the amount of \$454,547, and that the said operating income was sufficient to pay interest on the funded debt and preferred stock dividends and, in addition, to provide \$161,734 as return to the equity owners, which latter amount was 5.67 per cent of the stated value of the common stock and advances or 5.07 per cent if surplus is included. The Commission also found that competent evidence of the present fair value of the properties of Illinois Commercial Telephone Company was not available in the record to warrant a

finding that the said present fair value was in excess of its capitalization. In its order the Commission noted that the chief complaints in the record on the part of the objectors are the quality of the service furnished and the inadequacies of the equipment.

On March 22, 1947, petitioner filed with the Commission a petition for rehearing, and on April 11, 1947, the Commission granted said rehearing. On May 14, 1947, petitioner filed a motion for temporary increase in rates pending final decision in the issue.

On June 26, 1947, Local Union B-51, International Brotherhood of Electrical Workers, and Local Union B-702, an unincorporated association, upon petition, were granted leave to intervene in this proceeding.

On July 1, 1947, on the evidence then before it, the Commission entered an order directing the petitioner to file as temporary rates effective July 10, 1947, and thereafter until permanent rates are fixed by order of this Commission, schedules of rates for local exchange service requested by the petitioner in its schedules filed with the Commission on March 28, 1946, but ordered and directed that the temporary schedules filed in pursuance with the said order should be so worded as to continue in effect all free toll

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service then furnished subscribers of the company.

In its order of July 1, 1947, the Commission specifically retained jurisdiction of the subject matter and the parties to the proceedings for the purpose of fixing permanent rates and for the issuance of such further order or orders as it may deem meet.

On July 19, 1947, the objectors filed application or motion with the Commission asking for rehearing and reconsideration in connection with the temporary order and such motion was argued before the Commission on July 28, 1947, and the motion was subsequently denied on July 29, 1947.

Hearings in the matter were continued subsequent to the issuance of the temporary order and following oral argument before the Commission en banc on December 22, 1947, the cause was marked heard and taken and is now before the Commission for final consideration.

Since the order of the Commission permitted the rates filed by the company on March 28, 1946, to be placed in effect as temporary rates but denied the company the right to discontinue any free service to neighboring exchanges, the issues now before the Commission appear to be (1) does the evidence now of record justify the reduction of these rates or their continuance as permanent rates, and (2) does the evidence of record justify the discontinuance of free service between the several exchanges as proposed in the schedules filed March 28, 1946, in whole or in part.

Witnesses for petitioner presented evidence concerning the valuation of the physical property on a reproduction cost basis. The method of arriv-

ing at the valuation is complicated in the extreme. Petitioner's witness purported to take an inventory of the property. It was begun in September, 1943, when the property in 26 exchanges was inventoried. Beginning June, 1944, the remainder of the property was purportedly inventoried. These records were adjusted by adding and eliminating recorded changes in plant to obtain an inventory of units of property as at December 31, 1944. The plant superintendent for the company testified in support of the accuracy of the inventory, particularly notable—that part of his responsibility was to see that no substantial items of property were omitted from the inventory. This inventory was priced by unit costs at witness' estimate of the cost of reproduction new as of December 31, 1944. Subsequently, the inventory was adjusted by obtaining from the company an official list of property withdrawn from service and placed in service between December 31, 1944, and December 31, 1946, and later for the period January 1, 1947, to March 31, 1947. On this basis, there was first obtained an appraisal of the property in service at December 31, 1946, appraised at December 31, 1944, prices. New unit costs were derived to represent the opinion of the witness of the cost to reproduce new at December 31, 1946. These unit costs were applied to the units of property in the 1944 inventory which remained in use on December 31, 1946, and also to the units of property added from December 31, 1944, to December 31, 1946. (It is interesting to note from this latter calculation that the cost of the property added between December 31, 1944, and April 30,

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1946, was \$852,713 which was appraised at December 31, 1946, prices at \$1,062,907, or an increase of substantially 25 per cent.) Witness testified that for property added after April 30, 1946, the actual cost was used. On this basis the reproduction cost new of the physical property, as at December 31, 1946, remaining in use on March 31, 1947, was estimated to be \$18,810,501.

[1] The same witness for the company testified that he made a personal inspection of the property (which was supplementary, however, to the work of his staff) to determine the depreciation existing as of March 31, 1947, by the inspection method. The amount of depreciation determined was approximately 15.5 per cent of the reproduction cost new, or \$2,913,127. Company's brief points out that the witness had testified that 68 per cent of the present book cost was installed by the company, leaving 32 per cent acquired from other companies as property in service during 1928, still remaining in service. Of the 68 per cent only \$2,347,000 has been installed since 1944. As usual in these cases, it would appear that the inspection method does not reveal the depreciation that actually exists in the property. The witness' 15.5 per cent compares with somewhat more than 24 per cent found by relating the book depreciation reserve to the original cost new (a ratio that mathematically must increase when applied to a reproduction cost base) in a situation in which the prospective loss on retirements of property on an original cost basis is expected by the company to exceed \$1,100,000, in the very near future.

The net depreciated reproduction cost of the property, as appraised by witness for the company, in service on March 31, 1947, was \$15,897,374. To this the company adds its claim of \$79,780 for organization; \$400,000 for materials and supplies; and \$500,000 for cash working capital, representing a total value claimed as at March 31, 1947, of \$16,877,154. Further testimony on behalf of the company claims that its construction work in progress will amount to \$1,119,972 in excess of retirements, that construction work not yet in progress but under commitment will amount to \$1,654,487 in excess of retirements, that the cost of restoring plant margins (i.e., providing a reasonable excess of capacity over subscribers' demands for installations) will require \$456,198 in excess of retirements by December 31, 1947, and that routine construction between April 1 and December 31, 1947, will cost \$326,482 in excess of retirements. The company, accordingly, claims \$20,324,293 as the value of its property as at December 31, 1947, on a reproduction cost basis, including organization, materials and supplies and working capital, and claims an additional \$1,100,000 for going value.

Objectors resist the claim for reproduction cost as evidence of value; the inventory as being correct; the use of unit costs as resulting in a valid determination and in particular the method by which prices were obtained and certain substantial amounts of property were valued, and urge that no allowance be made for going value in view of the service rendered and the financial condition of the company, and that the property be valued as at

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March 31, 1947, without allowance for property not then in service. They also stress that the determination of the depreciation existing in the property was inadequate and that the amount deducted for that purpose is insufficient to present the depreciation actually existing in this property, especially in view of the complaints as to service. In addition, they characterize the entire appraisal as being based on hearsay without adequate check by the appraisal witness on the hearsay statements he accepted.

[2] The record discloses that the original cost new of the property in service on March 31, 1947, is estimated by the company to be \$13,017,443, and the depreciation reserve accumulated as of that date is \$3,156,793. There is no controversy as to the validity of these figures for present use, although the Commission's staff has not completed its verification of the company's determination of original cost for submission to the Commission, nor has the Commission's staff made any investigation of the depreciation reserve. However, the Commission is assured that for the purposes of this proceeding the two figures may be accepted as correct. The company claims \$850,000 for materials and supplies and cash working capital. The company then claims the addition for construction work in progress of \$1,451,188, for work under commitment \$2,386,413, restoring plant margins and routine construction since April 1, 1947, of \$494,560 and \$480,480, and adjusts for the change in depreciation reserve projected to December 31, 1947, by deducting \$566,684 as the increase in depreciation reserve during the period. (The cost of property dis-

placed was, of course, appropriately treated in this computation.) On this basis it reaches a claim based on original cost of \$14,956,607. Much controversy exists as to the validity of adding the plant claimed by the company but which was not in service on March 31, 1947. Since December 31, 1947, has been passed, it would appear that a valuation as at that date is in order. Of the claims on an original cost basis, the Commission is inclined to think that since the company collects a major portion of its revenues in advance of rendering service, the requirement for cash working capital is excessive. The claim of the company for \$850,000 for materials and supplies and cash working capital should be reduced to \$550,000. On this basis the original cost valuation of the property is \$10,410,650 for property in service at December 31, 1947, and \$14,656,607 for the prospective future.

[3] Considering the nature of the reproduction cost appraisal including the observed depreciation, and the relative recency of the increase in prices to current peak levels, the Commission cannot put much emphasis on this evidence. However, the company is under the obligation to make the additions to plant as testified in the record, and the Commission will see that these additions are made for the benefit of the subscribers. In order to make these additions, it is necessary for the company to raise additional capital and this capital can only be raised if the earnings on the capital are sufficiently apparent to investors to warrant their providing the needed money. The Commission is of the opinion that giving effect to current reproduction and other intangible elements of value

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to the extent pertinent in the case at hand, a reasonable rate base on which the company is entitled to earn for the next several years should be set at \$15,000,000.

[4, 5] The company presented testimony as to the fair rate of return it should be entitled to earn. However, much of that testimony runs counter to all of the Commission's experience with the financing of public utilities under its jurisdiction and with its allowances for rate of return in other rate cases. The Commission, however, must give consideration to the fact that at the present time the demands of investors for interest and dividends in order to invest their money in an Illinois public utility is somewhat higher than it has been for a substantial number of years in the past. The Commission is of the opinion that a company of this type should be allowed to earn $5\frac{1}{2}$ per cent, provided it can do so without being required to resort to rates which are so high as to cause a substantial loss in the number of customers and the usage; $5\frac{1}{2}$ per cent on a rate base of \$15,000,000 would require earnings of \$825,000 per year, after Federal income taxes.

The rates now in effect on a temporary basis have been subject to actual experience for a period of three months. Based on that three-months' experience, the company reports that its net income as recorded on its books aggregates \$189,800.75, indicating an annual income of \$759,203. Both the company and the objectors begin to adjust with this figure. The company and the objectors have guessed (the word is used advisedly) as to the effect of the increase recently granted Il-

linois Bell and a few other factors on the toll revenues of petitioner. The objectors say that the increase will be \$141,000 net before Federal income tax. The company makes no precise estimate, but claims that it will not exceed \$184,862.40. The Commission's staff has made an estimate of these factors and it would appear that both of these estimates are excessive. The company further claims that it should be allowed additional expenses of \$26,062.40 for additional amortization of rate case expense, \$46,000 for the cost of establishing and maintaining continuing property records (not as yet ordered by this Commission to be maintained) and \$112,800 for additional Federal income tax (additional to the amount recorded but not additional to the actual amount payable based on the earnings for a year as estimated). Objectors insist that no allowance should be made for amortization of rate case expense, that the claimed allowance for bad debts should be reduced by \$2,500, that amortization of special facilities was completed during the year and, therefore, is nonrecurring and should be eliminated, and that the claim for maintenance, being the amount actually expended during the period, reflects the catching up with maintenance deferred because of wartime conditions and the necessary maintenance at a normal level due to the large construction program and should be reduced. With respect to the latter, the Commission cannot overlook the fact that although the maintenance costs are high, they have been incurred and they will probably remain high for several years in the future. In addition, the Commission cannot overlook the fact that since the

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close of the case a severe sleet storm has necessitated a very substantial amount of maintenance not foreseen. The Commission's experience with current maintenance costs on this and other companies is such that with respect to this company it believes that the amount of maintenance claimed by the company cannot be excessive for a period of two years in the future by any amounts such as that claimed by the objector. The company admits that its income is probably fairly measured by using the annual amount of \$759,203 after Federal income tax. The Commission believes that the earnings will be somewhat in excess of that figure, but it appears that there is no real prospect that the earnings will exceed \$825,000 after Federal income tax. It would appear, therefore, that the company's earnings are slightly in excess of 5 per cent on the rate base on which the Commission believes it should be permitted to earn, according to the company's estimate, and somewhat short of $5\frac{1}{2}$ per cent on such rate base on the Commission's estimate. The former figure is not so low as to constitute an unreasonably low return and the latter figure is substantially a fair return. It would appear, therefore, that the rates now in effect as temporary rates except as hereinafter noted should be made permanent, and that the company will earn a reasonable return and substantially a full fair return on the fair value of its property.

There appears to be a few instances where magneto exchanges are charged the so-called "E" or "F" rates designed for common battery or dial exchanges of from 1,501 to 2,500 and from 2,501 to 5,000 stations respec-

tively because the free toll service furnished to adjoining exchanges places them in the higher rate groups. It would appear that these exchanges should receive the same rate treatment as magneto exchanges of 1,500 stations or less in which latter classifications magneto rates of 25 cents less than the common battery or dial rates apply. This will have a negligible effect on the revenues of the company but would have the effect of correcting an apparent discrepancy in the rate structure.

Considerable evidence was presented in connection with the free service points the company proposes to discontinue and the additional free service points the company proposes to establish in certain of its exchanges. The evidence shows that of the 282 free service points where discontinuance of service is requested 25 are points to which free service has never existed or where free service has ceased to exist due to abandonment of connecting company exchanges and circuits. In 66 instances a toll charge is in effect in the opposite direction. In 185 instances the company contends that there is little community of interest between the points as shown by the average daily use of the service. The number of free service points where one or more intermediate exchanges are involved in the completion of the call is 203. The number of direct free service points where elimination is requested on the basis of the large number of free service points called by the exchange, where other free service points are proposed, or where a dial conversion is scheduled is 54. The number of additional free service points proposed is 23. During the

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course of the hearing considerable evidence was presented by objectors to the proposed free service elimination. This objection was particularly noticeable when the discontinuance of service between exchanges whose areas adjoin resulting in subscribers who are all in the same vicinity but connected to different exchanges paying toll to talk with each other. To the discontinuance of a considerable number of the points there was no specific objection.

The Commission having considered the evidence of record, the briefs and argument of counsel and being fully advised in the premises, is of the opinion and finds:

(1) That the Illinois Commercial Telephone Company is a public utility as defined by § 10 of "An Act concerning public utilities," as amended, and that the Commission has jurisdiction of the subject matter and the parties to this proceeding;

(2) That the fair value of the property of Illinois Commercial Telephone Company, including all elements of value tangible and intangible with due allowance for immediate prospective construction on which the company should be allowed to earn is \$15,000,000;

(3) That the present annual amount available for interest and return under the temporary rates authorized by this Commission by order entered on July 1, 1947, is at least \$759,203 and no more than \$825,000, or 5.06 per cent and 5.5 per cent respectively on the fair value hereinabove found;

(4) That the rates now in effect by Illinois Commercial Telephone Company do not result either in an excessive return or an inadequate return on the fair value of the property, and the said rates are just and reasonable except as hereinafter ordered and should be continued in effect as permanent rates;

(5) That the Illinois Commercial Telephone Company should be permitted to discontinue free service to certain of the points requested in the schedules filed with the Commission on March 28, 1946, but that certain others should be retained as hereinafter ordered;

(6) That the additional free service points proposed in the schedules filed with the Commission on March 28, 1946, should in each instance be made effective and the proposed free service extended to such points.

SENDER v. DAMARISCOTTA-NEWCASTLE WATER CO.

MAINE PUBLIC UTILITIES COMMISSION

Edwin Murray Senter

v.

Damariscotta-Newcastle Water Company

F. C. 1253

February 18, 1948

COMPLAINT against proposal of water company to charge additional minimum meter rate for service to part of a building used by a club; complaint sustained.

Rates, § 314 — Additional minimum charge — Use of premises by club.

A water company, under a rule prohibiting a customer from allowing others to use water obtained through his meter and providing for a minimum meter rate for each separate tenement, is not entitled to collect an additional meter rate because of the weekly use of a floor in a block by a club when it uses only a small amount of water.

Rates, § 314 — Additional minimum charge — Separate tenement.

Discussion of the question what constitutes a separate tenement within the meaning of a rule providing for a separate minimum meter rate, p. 159.

Service, § 136 — Restriction to customer — Trivial use by others.

Discussion of the application of a water company's rule prohibiting a customer from allowing others to use water obtained through the consumer's meter, particularly where only a trivial amount of water is used by others, p. 159.

Rates, § 288 — Minimum charge — Expense of readiness to serve.

Discussion of the basis for a minimum charge covering the right to use water, with a consideration of expenses and fixed charges justifying a charge for readiness to serve, p. 160.

Rates, § 288 — Minimum meter rate — Rule.

Discussion of the proper wording and application of a rule of a water company providing for a minimum meter rate, p. 161.

APPEARANCES: E. M. Senter, Damariscotta, pro se; E. L. McLean, Augusta, for Damariscotta-Newcastle Water Co.

By the COMMISSION: On August 8, 1946, Mr. E. Murray Senter, of Damariscotta, Maine, made complaint

to this Commission to the effect that the Damariscotta-Newcastle Water Company proposed to charge him an additional minimum meter rate for water service at his place of business. He alleged that he occupied a building in Damariscotta, the basement, first

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and second floors of which were used in the conduct of his department store; that the third or top floor, which is accessible from the second floor as well as by a separate entrance, was used as a rest room for store employees, and on one evening each week it was used by the Rotary Club for their regular luncheon meeting; that because of its use by the Rotary Club the water company proposed the additional charge. The third floor is equipped with a kitchen sink and a stove which are used in the preparation, in part at least, of the Rotary luncheons as well as by the department store employees. There is also a toilet on the third floor. The entire building is served through one water connection and one meter.

The matter was taken up with the Damariscotta-Newcastle Water Company which contended that under the provisions of Rule 4 of its Rules and Regulations, duly filed with this Commission as a part of its schedule of rates and charges, it was justified in requiring the payment of an additional minimum meter rate for the reason that the third floor being so used by the Rotary Club must be considered as a separate tenement. Rule 4 reads:

"No consumer shall allow any person not a part of his household to purchase, use, take, carry off, or consume water obtained through said consumer's meter. A minimum meter rate shall be required for each owner and for each separate tenement whether said tenements are under the same roof or not."

Being unable to effect a settlement of the dispute by informal means, the Commission, on its own motion, docketed the matter as a formal case under the above number. The respondent

utility was given notice that if the cause of the complaint had not been removed at the expiration of seven days, a public hearing would be ordered. It appearing, at the expiration of the seven days, that the cause had not been removed, the matter was assigned for hearing at Damariscotta, on March 25, 1947, at 10 o'clock in the forenoon. For the convenience of parties the hearing was postponed to April 24, 1947, at the same place and hour. Interested parties were so notified and hearing was held pursuant thereto.

E. Murray Senter appeared and testified in his own behalf and the Damariscotta-Newcastle Water Company was represented by counsel. Mr. Senter testified that the Rotary Club had held weekly meetings on the third floor of his building for the past ten years and not until September of last year did the water company attempt to charge an additional minimum meter rate; that the usual attendance at the Rotary meetings was about twenty-five; that the Rotary paid him \$3.50 a week to cover expenses; that a check of the water used by the Rotary Club had been made for the six weeks, March 18, 1947, through April 22, 1947; and that the total consumption for the six meetings was 20 cubic feet, or an average of $3\frac{1}{3}$ cubic feet per meeting. Complainant contends that a separate minimum meter rate, i.e., \$6 per quarter year, for such a small quantity of water would be unreasonable. Respondent stated that at one time an additional minimum meter rate had been applied because of the occupancy of the third floor. It appears that at the time of such prior occupancy the third floor was designed

SENDER v. DAMARISCOTTA-NEWCASTLE WATER CO.

as an apartment and was occupied as a place of abode.

Respondent company, in support of its contention that the third floor of the Senter building constitutes a separate tenement, cites decisions wherein it was held that the word tenement, in addition to its application to houses and other buildings, "signifies everything that may be holden, provided it be of a permanent nature"; that "the word often signifies *rooms let in houses*; . . . also a *part of a room*, as where one occupies one side of the room, and another the opposite side, or one the front and the other the rear which is not infrequent in small trades." Respondent further contends that "a place that is available for rent is just as much a tenement as one that is actually rented." It is doubted that respondent would assess a minimum meter rate for each room let in a house, or for each part of a room occupied by an individual. If such is the purport of Rule 4, the rule may well be unreasonable and if unreasonable, it is unlawful. To require a minimum meter rate for unoccupied tenements the same as if occupied would be unreasonable. It would not appear that such occupancy as that by the Rotary Club one evening a week has the significance of anything that is held permanently or to the exclusion of others. Such use of the third floor of the Senter building by the Rotary Club is not unlike the holding of such luncheon meetings in a hotel dining room. It would seem that Rule 4 should more properly make reference to tenant, or place of business or abode.

Respondent contends that Rule 4 can be interpreted only by a reading of its entirety; that the first sentence

shows that a separate minimum was intended whenever usage was made of water by other than members of the consumer's household. The first part of Rule 4, namely, the first sentence, in no way authorizes or suggests any charge for the usage of water prohibited therein. It is purely a prohibitory provision, which if applied literally might well be unreasonable. Complainant argues that in view of such provision a "consumer" is prohibited from as much as giving a glass of water to any person not a part of his household. Notwithstanding the absurdity of such a prohibition, respondent does not oppose that such is the intent of the first part of Rule 4.

The second part of Rule 4, namely, the second sentence, simply provides that a minimum meter rate shall be required for each owner and for each separate tenement. It does not seem to provide any charge for the giving of a glass of water or for any usage prohibited by the first part, except only where another owner or a separate tenement is involved.

It would appear that the two provisions of Rule 4 were incongruous; that they might better be set forth in separate rules. The first sentence would seem to be too all-embracing, and might well be expressed substantially as, "No consumer shall supply water to another not entitled to the use of it."

Respondent cites the case of Pejepscot Paper Co. v. Lisbon ([1928] 127 Me 161, 142 Atl 194) which involved the application of one of two schedules, one for domestic use and the other for industrial. Here, there is but one schedule of rates, hence the question presented is unlike that in the Pejep-

MAINE PUBLIC UTILITIES COMMISSION

scot Case. Possibly respondent might contend that by virtue of the provisions of the first part of said Rule 4, any usage of water other than for household purposes is prohibited, but it does not appear that such is its contention.

Respondent suggests that the minimum charge covers the right to use the water; that the Rotary Club has the benefit of a standby service which is sometimes referred to as "readiness-to-serve." We believe any charge for a "readiness-to-serve" should be predicated on those expenses and fixed charges which are in a large measure the same for all consumers whether they use a large quantity of water, a small quantity, or none at all. Fixed charges are such as interest and depreciation upon the investment in meter, service connections, and other consumer equipment, also certain operating costs, such as maintenance and repairs to meters and services, and the reading of meters, with billing, bookkeeping, and collection costs. Those fixed charges and expenses continue as long as the meter and service are there ready for use. But in this case there is no separate service, no separate meter, no separate meter reading, no separate billing, bookkeeping, or collecting in connection with the use of water by the Rotary Club. It is obvious that the cost of service to the utility when rendered to two or more customers through a single meter is less than when rendered through separate meters.

Complainant's Exhibit I, admitted without objection, indicates that the total amount of water consumed by the department store and the Rotary Club for the five years ending March, 1946, 72 PUR NS

averaged 876.25 cubic feet per quarter-year; the average charge per quarter (540 cubic feet allowance at \$6 plus 336.25 cubic feet at 80 cents per hundred cubic feet) would be \$8.69. Inasmuch as the actual consumption in each quarter exceeded the allowance under the minimum charge plus that used by the Rotary Club, based on the afore-mentioned test, it is evident that the respondent received payment at the rate of 80 cents per hundred cubic feet for all water used by the Rotary Club.

The consumption for the quarter following March, 1946, was not considered for the reason that the meter became stuck and the billing was issued on an estimated consumption as set forth in respondent's letter of August 31, 1946, and by stipulation made a part of the record. It would appear, however, that such consumption was estimated to be 1,810 cubic feet, which amount exceeded any previous quarter within five years by more than 500 cubic feet, and the average quarterly consumption by more than 900 cubic feet. This estimated billing would seem to involve an overcharge of approximately \$5.

Respondent answered that application of a separate minimum meter rate account of the Rotary Club would include an additional water allowance of 540 cubic feet. It is observed, according to said Exhibit I, and the correspondence made a part of the record, that the initial billing to include the separate minimum meter rate, i.e., September, 1946, billing, failed to make any additional water allowance. The consumption was 774 cubic feet and the charge was \$13.87, computed apparently as follows:

SENDER v. DAMARISCOTTA-NEWCASTLE WATER CO.

Minimum meter rate \$6.00 x 2 \$12.00
Water allowance 540 cu. ft., balance
234 cu. ft. @ 80 cents per 100 cu. ft. 1.87

The second sentence of Rule 4 should be more specific as to the meaning of "minimum meter rate," that is, it should definitely set forth what additional amount of water will be allowed. We believe, however, a reasonable interpretation of this sentence would be that 540 cubic feet of water would be allowed for each "minimum meter rate" assessed. In this connection, it is recommended that respondent might well adopt the uniform rules and regulations which are now observed by many water utilities.

On the basis of the Rotary Club using approximately 45 cubic feet of water per quarter-year and a total average quarterly consumption of 876.25 cubic feet, the application of a separate (additional) minimum meter rate with an additional water allowance of 540 cubic feet would result in an increase in the present charge of approximately \$13.25 per year. In such case the utility would receive for the water used by the Rotary Club approximately \$8 per hundred cubic feet. Under the circumstances presented in this case, it would appear that this

charge for such secondary use of the service is excessive and, accordingly, it is unreasonable.

Respondent has endeavored to apply in this instance a rule that where the facilities are used doubly, double charges are to be made therefor. Such a rule, which is not uncommon and with which the Commission has no quarrel, is susceptible of abuse and must be applied with sound discretion and not where the secondary use of the facilities is trivial.

On the facts, we are of the opinion that the water used by the Rotary Club is but incidental and not in an amount that would transgress the first provision of said Rule 4; and that the use, by the Rotary Club, of the third floor of complainant's store is not such as would justify the assessment of an additional "minimum meter rate" under the second provision of said rule, or otherwise.

Wherefore, it is *ordered, adjudged* and *decreed* that the Damariscotta-Newcastle Water Company cease and desist in the application of an additional "minimum meter rate" in connection with the use, as herein set forth, of the third floor of said building occupied by complainant herein.

SECURITIES AND EXCHANGE COMMISSION

SECURITIES AND EXCHANGE COMMISSION

Re Electric Bond & Share Company
et al.

File No. 54-51, Application 10, Part E, File No. 59-12,
Release No. 7982
February 27, 1948

APPPLICATION filed by attorney for common stockholder requesting compensation for services rendered in connection with plan under § 11(e) of Holding Company Act; granted in reduced amount.

Corporations, § 5 — Powers of Securities and Exchange Commission — Simplification of holding company system — Fees and expenses.

1. The jurisdiction of the Securities and Exchange Commission over fees and expenses in connection with simplification plans under § 11(e) of the Holding Company Act, 15 USCA § 79k(e), includes power to award compensation for services beneficial to the reorganization, the payment of which is not specifically provided for by the company and is opposed by it, particularly where the company has, in connection with approval of a plan, undertaken to pay such fees as are awarded by the Commission, p. 165.

Commissions, § 51 — Disqualification to render decision — Issue between staff and applicant.

2. The Securities and Exchange Commission is not disqualified from rendering a decision because members of its staff have taken a position opposed to that of an applicant seeking fees and expenses in a reorganization under § 11(e) of the Holding Company Act, 15 USCA § 79k(e), p. 167.

Corporations, § 24 — Reorganization — Fees.

3. The Securities and Exchange Commission, in passing on applications for fees and expenses, applies the principles followed by the Federal courts in cases under § 77B and Chapter X of the Bankruptcy Act, where the general rule is that compensation may be paid out of the estate in reorganization only for such services as have contributed to the formulation of the reorganization plan adopted or to the defeat of a proposed plan, or which were otherwise beneficial in the administration of the estate; and in applying this rule with respect to compensation for services rendered in connection with a plan under § 11(e) of the Holding Company Act, 15 USCA § 79k(e), the Commission recognizes that compensation should not be paid out of the reorganization estate for activity which is merely duplicative of the work of others and does not represent a real contribution to the reorganization process, p. 168.

Corporations, § 24 — Reorganization — Fees.

4. The ultimate test, in considering the amount of compensation to be awarded an applicant in a proceeding under § 11(e) of the Holding Company Act, 15 USCA § 79k(e), is the measure of the benefit conferred by

RE ELECTRIC BOND & SHARE CO.

his activities, and among subsidiary considerations are the time properly required to be spent on the matter for which compensation is sought and the difficulty of the problems involved, p. 170.

APPEARANCES: Israel Beckhardt for the applicant; Reid & Priest, by Ralph McDermid, for National Power & Light Company; Simpson, Thacher & Bartlett, by Benjamin C. Milner, for Electric Bond and Share Company; David Ginsburg, for the Public Utilities Division of the Commission.

By the **COMMISSION:** This proceeding concerns an application filed by Israel Beckhardt, an attorney for a common stockholder of National Power & Light Company ("National"), requesting compensation for services rendered by him in connection with a plan (designated as Part E of Application 10) filed under § 11 (e) of the Public Utility Holding Company Act of 1935, 15 USCA § 79k (e) ("the Act") jointly by National and its parent, Electric Bond and Share Company ("Bond and Share"), both registered holding companies. That plan provided for the settlement of certain claims involving Bond and Share and its wholly owned service company subsidiaries, Ebasco Services, Inc., and Phoenix Engineering Corporation, on the one hand, and National, its subsidiaries and certain of its former subsidiaries, on the other hand. Our order approving the plan, as amended, reserved jurisdiction over all fees and expenses to be paid in connection therewith except certain fees specifically provided for in the plan.¹ Thereafter Beckhardt filed this application requesting that we approve pay-

ment by National of fees and expenses to him in the amount of \$75,000.

After appropriate notice a hearing was held. Beckhardt filed a brief in support of his application, and briefs opposing the application were filed by Bond and Share, by National, and by the Public Utilities Division of the Commission. Applicant filed a reply brief, and we heard oral argument. Upon the basis of the entire record, the briefs and oral argument, we make the findings and reach the conclusions set forth below.

The circumstances leading up to the formulation of the amended plan which we approved are set forth at length in our findings and opinion approving the plan,² and we repeat here only so much as is necessary to assess the part played by applicant in the formulation of and the proceedings on the plan.

In May, 1940, proceedings were instituted by this Commission pursuant to § 11 (b) (2) of the Act and resulted in the issuance by us of an order directing the dissolution of National. Subsequent to the institution of those proceedings, stockholders of National brought eight derivative actions in the courts against Bond and Share. These actions were based principally on the alleged illegality of service charges made by Bond and Share's subsidiary service companies during the period from December 1, 1935, the effective date of the registration provisions of the Act, to April 1, 1938, the date of

¹ Re Electric Bond & Share Co. Holding Company Act Release No. 6663, May 27, 1946.

² *Ibid.*

SECURITIES AND EXCHANGE COMMISSION

registration by Bond and Share, and alleged infirmities in Bond and Share's holdings in National arising out of alleged mismanagement and breach of fiduciary duties by Bond and Share. In one of these cases, in which the complaint alleged the illegality of service contracts between service company subsidiaries of Bond and Share and operating subsidiaries of National and petitioned for the refund of payments made during the period in question, the court held that the allegations set forth a cause of action and, in remanding the case for trial on the merits stated that it did not then pass upon whether the amount recoverable should be the full consideration, as claimed by the plaintiff, or only the difference between the consideration and the value of the services rendered.³

In September, 1945, as one step in a comprehensive program for its dissolution and the distribution of its assets, National filed a plan for the settlement of all claims against Bond and Share, including and based principally on the claims asserted in the eight pending stockholders' derivative actions. The plan as originally filed called for the payment by Bond and Share to National of \$525,000, which proposed settlement resulted from negotiations between counsel in the stockholders' actions and Bond and Share, and between National and Bond and Share. The basis of the proposed settlement appears to have been the estimated amount of Bond

and Share's profits on the service charges, stated to be approximately \$492,000, plus an amount calculated to reimburse National for its expenses incident to a settlement of the claims. At the hearings held on this original plan, cross-examination by counsel for our Public Utilities Division, developed the following points:

(1) In computing the estimated profit figure of \$492,000, which formed the basis of the proposed settlement, the allocation of cost of services as between domestic and foreign operations was not determined from actual records but was predicated on a cost study for three months (January 1, 1938, to April 1, 1938) of the period in question. That study indicated that 70 per cent of the total expenses of Ebasco Services, Inc. was applicable to its domestic operations and 30 per cent to foreign, and this 70-30 ratio was used to allocate domestic costs for the entire period from December 1, 1935, to April 1, 1938. However, only 62 per cent of the total funds collected by Ebasco over the latter period was derived from domestic operations, 38 per cent arising from foreign operations, and had a 62-38 ratio been used to apportion expenses between domestic and foreign operations, domestic costs would have been lower and the profits correspondingly higher.

(2) In estimating profits on the service charges to National's subsidiaries, Federal income taxes had been deducted as an expense. Profits would have been larger had they been computed before such taxes.

(3) No specific allowance was made in arriving at the settlement figure for interest on the profits received by the

³ Goldstein v. Groesbeck (1944) 142 F.2d 422, cert. den. (1945) 323 US 737, 89 L. ed 590, 65 S. Ct 36. The parties in several of the other actions stipulated that they would be bound by the outcome of the Groesbeck Case.

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Bond and Share service companies. If a right to receive such interest by National and its subsidiaries were recognized, a larger settlement than that proposed in the original plan would have been indicated.

Following the hearings and discussions with the staff the applicants amended the plan so as to provide for an increase of \$225,000 in the amount of the proposed payment by Bond and Share to National, making the total payment \$750,000 instead of the \$525,000 originally proposed. In approving the amended plan providing for the payment of the larger sum, we specifically stressed the three points mentioned above.

Objections to Commission's Jurisdiction and Qualification

[1] Applicant in his application and brief, and in oral argument, has raised the preliminary objections that this Commission has no jurisdiction to pass on the question of what fees and expenses should be paid him in connection with the plan,⁴ and that in any event we are disqualified from passing on his fee because a major issue in the case is the relative contributions made by him and the staff of our Public Utilities Division to the amendment of the plan and the staff has opposed his application. Applicant thus presents the inconsistent position of applying for relief from us

while at the same time denying our jurisdiction and competency to pass on his application. However, we have determined to pass not only on his objections, which we believe should be overruled, but also on the merits of his request for compensation.

In his attack on our jurisdiction to pass on his fee, applicant has argued that the only provision in the Act which confers any power to pass on fees is that contained in the last sentence of § 11 (f), which relates to fees in connection with reorganizations and liquidations of registered holding companies or their subsidiaries which are the subject of proceedings in a Federal court, and that that sentence indicated a congressional intent that our jurisdiction over fees in any § 11 proceeding be limited to the granting or withholding of approval of the payment of such fees as the company may desire voluntarily to pay. We cannot agree that the provisions of § 11 (f) indicate any lack of our power to pass upon fees in § 11 (e) reorganizations or imply any distinction in such cases between fees which the company desires to pay and those to which the company is opposed.

In the case of *Re Engineers Pub. Service Co.*⁵ we discussed the question of our jurisdiction over fees and expenses which we have exercised over a long period of time in connection

⁴ Prior to filing the instant application, Beckhardt brought an action in the United States district court for the southern district of New York seeking to recover \$75,000 from National as compensation for his services. In April, 1947, the district court ordered that that action be held in abeyance until after a determination by this Commission. Beckhardt then filed the instant application and also appealed from the district court's order to the circuit court of appeals for the second circuit. The latter court on November 20,

1947, dismissed the appeal on the ground that the district court's order did not involve any determination of plaintiff's claim of a conflict of jurisdiction between this Commission and the district court but amounted to merely a temporary continuance and was not a final judgment from which an appeal could be taken. *Beckhardt v. National Power & Light Co.* (1947) 164 F2d 199.

⁵ (1946) Holding Company Act Release No. 7041, 66 PUR NS 414.

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with § 11 (e) plans. We there held that, although § 11 (e) contains no specific provision relating to fees and expenses, the Act does confer on this Commission the power and obligation to supervise fees and expenses in connection with § 11 (e) plans. In that case we pointed out that the "fair and equitable" standard which we must apply in approving a § 11 (e) plan necessitates such supervision, not only to carry out the duty of insuring against overreaching through payment of excessive fees, but also to afford an assurance that interested persons who contribute to the exploration of pertinent issues and the development of a plan or otherwise benefit the estate will receive fair compensation so that such participation on their part will not be discouraged. We also referred to the express grants of authority over fees and expenses contained in §§ 7, 10, and 12 of the Act, 15 USCA §§ 79g, 79j, 79l, which relate to sales and acquisitions of securities, and pointed out that those provisions indicate an intent that power over fees and expenses exists as well under § 11 (e), since practically every § 11 (e) plan involves in some manner the exchange, issue, distribution, alteration or cancellation of securities. Congress could not have intended that we supervise fees in connection with a § 11 (e) plan only if and to the extent that they relate to particular securities transactions which are within the purview of §§ 7, 10, or 12, for it would be impossible to segregate in every case the services performed in connection with each segment of a plan or appraise their value without considering the plan in its entirety. We further found that the foregoing considerations in-

dicated that the supervision of fees in connection with § 11 (e) plans is in the public interest and necessary for the protection of investors; and that accordingly § 11 (e), in expressly providing that plans may be submitted for our approval "In accordance with such rules and regulations or order as the Commission may deem necessary or appropriate in the public interest or for the protection of investors," permits us to act by order to exercise jurisdiction over the matter of fees.

We find nothing in the legislative scheme to indicate that Congress intended to limit our power over fees in connection with § 11 (e) plans solely to such fees as are proposed by the management. We think rather that it is in keeping with the Congressional intent in authorizing us to hear and pass upon these plans for corporate reorganization that we have the power to encourage adequate representation of all interests and full exploration of the issues in such reorganizations by assuring payment of adequate fees to all interested participants who request compensation from the reorganization estate for services in aid of or beneficial to the reorganization process. We find no support for the assertion that our power in that regard is dependent on whether or not the management, which may have had an interest opposed to or been for other reasons not in sympathy with the services performed by such participants, does or does not itself see fit to make provision for such compensation or supports or opposes payment of such compensation. In any event, there can be no question in the present case as to our jurisdiction over fees which are not specifically requested or are op-

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posed by the company because the company in carrying out the plan undertook to pay such fees in connection with the plan as we should award.⁶

For the above reasons, we believe it is clear that we have the power and obligation to supervise fees and expenses in connection with § 11 (e) plans, and to determine whether and in what amount fees and expenses should be paid to applicant in connection with the present plan.

[2] With respect to applicant's contention that this Commission is disqualified from rendering an impartial decision on the merits because a major issue is raised between him and the staff of the Public Utilities Division, we believe applicant has misconceived the status and the role of the staff in proceedings before us.

The interested Division of our staff is a party to proceedings before us,⁷ and in the course of its participation it is free to and often takes a position in support of or in opposition to a proposal or contention presented in the proceedings. When it does so, its views do not necessarily represent the views of this Commission but are rather asserted in its capacity as one of the parties to the proceedings.⁸ In such case the Division's views are considered by us together with those of all other participants in arriving at our independent determination of the issues presented.

In the present case we have given careful consideration in deciding the

question before us to the briefs and arguments of applicant, National, Bond and Share, and the staff, and have weighed the respective contentions respecting the participations and contributions which are alleged to have brought about the amendment of the plan. That one of the issues is whether or not the staff's efforts alone produced that result does not in our opinion render us disqualified to pass upon the conflicting contentions presented.

In exercising our quasi-judicial functions, it has been our practice, both before and after the adoption of the Administrative Procedure Act, to provide for a clear separation of functions in any contested case where the staff has taken a position. In such cases, members of the interested Division have no part in our deliberations incident to decision or in the preparation of our findings and opinion. Instead, our opinion writing office, acting entirely independently of the interested Division and responsible directly and solely to us, assists us in preparing our findings and opinion.⁹ This practice of insulating the decisional process from the activity of the staff of an interested Division which has taken an adverse position has been followed in this case.

For the foregoing reasons, we find no basis for the objection that has been raised to our qualification to pass upon the merits of the present application.

⁶ Our approval of the plan was expressly conditioned upon National's undertaking to pay such fees "as are approved, allocated, or awarded by this Commission." Holding Company Act Release No. 6663, pp. 14, 16, May 27, 1946.

⁷ Rule XVII of our Rules of Practice provides, *inter alia*:

" . . . Except to the extent that these

rules provide otherwise, the interested Division of the Commission shall be deemed a party to all proceedings."

⁸ Cf. *Re The Commonwealth & Southern Corp.* (1945) Holding Company Act Release No. 5825, 59 PUR NS 65.

⁹ See *Re American & Foreign Power Co.* (1947) Holding Company Act Release No. 7815, 72 PUR NS 322.

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The Merits of the Application

A. Applicable Standards

[3] In passing an applications for fees and expenses, we have applied the principles followed by the Federal courts in cases under § 77B and Chapter X of the Bankruptcy Act,¹⁰ where the general rule is that compensation may be paid out of the estate in reorganization only for such services as have contributed to the formulation of the reorganization plan adopted or to the defeat of a proposed plan, or which were otherwise beneficial in the administration of the estate.¹¹ In applying this rule with respect to compensation for services rendered in connection with a § 11 (e) plan, we have recognized that compensation should not be paid out of the reorganization estate for activity which is merely duplicative of the work of others and does not represent a real contribution to the reorganization process.¹² Accordingly, our inquiry here is whether applicant's services contributed to the formulation of the plan or were otherwise beneficial to the reorganization.

B. Nature and Extent of Applicant's Activities

Applicant represents an individual stockholder of National who in 1944 requested him to look into the questions involved in the stockholders' derivative actions which were pending

in the courts. In the early part of 1945, he studied the files in those cases and this Commission's public files and discussed the proceedings before us with members of the staff. He took no formal action, however, until after he was informed that the plan providing for payment of \$525,000 had been filed with us, and that we were to hold a hearing on such plan on January 3, 1946. Thereupon, in December, 1945, he filed a motion to intervene in one of the pending derivative actions. The district court denied the motion on the ground that he would have an opportunity to urge his contentions at the hearings before this Commission.¹³ Applicant appeared at hearings held before us on January 3 and 4, 1946, at which he raised objections to the jurisdiction and qualification of this Commission to pass on the claims between National and Bond and Share and contended that the amount of the settlement then proposed was inadequate because the courts had not yet determined that the appropriate measure of damages with respect to the claims was the amount of net profits involved in the service charges. He also moved for intervention as a party in the Commission proceedings if they were not to be dismissed. This motion was denied by the hearing officer, who granted applicant limited participation, including the right to make a

¹⁰ Re The Laclede Gas Light Co. (1947) Holding Company Act Release No. 7260, 68 PUR NS 60; Re Columbia Gas & E. Corp. (1944) Holding Company Act Release No. 5460, 57 PUR NS 475; Re The United Teleph. & Electric Co. (1940) 7 SEC 809.

¹¹ Section 243 of the Bankruptcy Act of 1938, 11 USCA 643; Re Porto Rican American Tobacco Co. (1941) 117 F2d 559.

¹² See Re Columbia Gas & E. Corp. *supra*, note 10, 57 PUR NS at p. 484:

"Where, however, the person seeking a fee has acted for an individual security holder it is the latter who should bear the cost, and not the estate, except to the extent that the claimant is shown to have materially contributed to the development of the plan, the progress of the proceedings or the welfare of the estate."

See also Re The Laclede Gas Light Co. *supra*, note 10.

¹³ *Karlsberg v. Maloney*, Civil, File No. 14-381, US Dist Ct.

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statement of his position, to examine and cross-examine witnesses, and to introduce evidence.

At the January, 1946, hearings, counsel for the Public Utilities Division by detailed and specific cross-examination of the management's witnesses developed the three major questions above referred to regarding the adequacy of the proposed settlement, and requested the proponents of the plan to submit additional exhibits giving more detailed information on these points. Applicant thereupon cross-examined the management's witnesses. His cross-examination as a whole dealt with the same matters that had been theretofore developed and he did not raise new questions of any significance. At the end of the hearing applicant restated his position that the proposed payment of \$525,000 was inadequate. He requested and was granted an adjournment for the stated purpose of giving him an opportunity to obtain the services of an accountant to study the record and prepare testimony on the fairness of the proposed settlement so that he could present more specific grounds of objection.

At the adjourned hearing, held on February 1, 1946, applicant introduced the testimony of an accountant who had made an examination of the record theretofore developed and had obtained certain data from officials of Bond and Share. The accountant's testimony covered in general the same ground already covered by counsel for the Public Utilities Division, and exhibits prepared by him presented the same material as that covered by exhibits submitted by proponents of the plan on their own initiative and in response to the requests made by counsel

for the Public Utilities Division. The computations differed in only one significant respect from those previously made; they used a different formula for determining the allowance for interest on the profits of the service companies, and arrived at an interest figure approximately \$100,000 larger than had been calculated in any of the earlier exhibits.

After the February, 1946, hearing, the proponents of the plan conducted informal discussions with the staff, and in April 1946 filed the amendment to the plan increasing the amount of the proposed settlement to \$750,000. At a hearing on the amended plan held in April, 1946, applicant withdrew his objections to the jurisdiction and qualification of the Commission to pass on the plan and to the fairness of the plan as amended, but requested oral argument on his application for intervention as a party to the proceedings. After oral argument, we approved the amended plan, but denied the request for intervention on the ground that the participation allowed applicant was not inadequate for the protection of his interests.

It is clear from the record that applicant did not originate the three grounds of attack on the adequacy of the \$525,000 payment originally proposed, and that his cross-examination and direct evidence were almost entirely repetitions of the matters covered by others. Duplication is too often an incident of reorganizations and certainly any compensation to one who retraces ground covered by another, must be adjusted accordingly.¹⁴ The issue here is whether, in spite of

¹⁴ See *Re The United Teleph. & Electric Co.* (1940) 7 SEC 809, 815.

SECURITIES AND EXCHANGE COMMISSION

the admitted duplication of effort, applicant did make a contribution to the formulation of the plan for which he should be compensated.

Applicant was the only participant to take the position on the record in the hearings before us that the payment of \$525,000 originally proposed was inadequate. National and the attorneys for the stockholders in the derivative suits which were being settled had already agreed that \$525,000 was a fair settlement. Thus, other than applicant, no one appeared in the proceedings to assert opposition to the proposed settlement on behalf of National's stockholders.¹⁵

Viewed against this background, we believe that applicant's active participation in the hearings in opposition to the \$525,000 settlement originally proposed, his cross-examination of witnesses and production of testimony, even though largely a duplication of matters brought out by cross-examination by the staff, was of some assistance in the formulation of the plan for a \$750,000 payment. His efforts appear to have been one of the factors which led Bond and Share to agree to the larger payment. The increase to \$750,000 did not give full effect to all three of the points raised in the hearings, but was essentially a compromise. Absent applicant's opposition, it is possible that a lower compromise figure falling within the permissible range of fairness could have been proposed and approved. In this connection, the testimony and exhibit of applicant's witness indicated an allowance for interest on the service charge

profits which was approximately \$100,000 more than the interest figure shown in the proponent's exhibit submitted at the request of the staff. The influence of this on the final settlement is not susceptible of exact measurement, of course, but taken together with the other factors mentioned, justifies a finding that applicant was of some assistance in inducing the company to submit an amended plan increasing the settlement figure by \$225,000.

Under all the facts and circumstances of this case we believe that applicant has made a sufficient contribution to the attainment of the plan as approved to warrant the payment of some compensation to him by National.

C. Amount to Be Paid Applicant

[4] Applicant has asked that he be awarded \$75,000 on the theory that he was solely responsible for the \$225,000 increase in the amount of the proposed settlement and that one-third of that increase is a reasonable fee. Without expressing any opinion as to what would be a reasonable fee had applicant been solely or primarily responsible for this contribution to the plan, we believe the findings we have made and the points we have discussed above clearly indicate that \$75,000 is grossly excessive in this case.

In considering the amount of compensation to be awarded an applicant, the ultimate test is the measure of the benefit conferred by his activities. Among subsidiary considerations are the time properly required to be spent on the matter for which compensation is sought, and the difficulty of the problems involved.¹⁶

¹⁵ The staff, of course, appeared and assisted in the development of the record but at this stage it took no position on the adequacy of the proposed settlement.

¹⁶ See *Re The United Teleph. & Electric Co.* *supra*, note 14, 7 SEC at pp. 814, 815.

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Although we have found that applicant did make some contribution to the formulation of the plan, it is clear that his work largely duplicated that of the staff, and that his independent contribution was of minor importance. In addition, since the staff originated and developed the three points of attack on the original settlement, less time was properly required by applicant to cover the same ground and the difficulty of the problems involved was minimized. Applicant testified that he did not keep records of

the time he spent on these matters. He gave 500 hours as a rough estimate, without itemizing the time spent with respect to particular work done. In view of the nature of his services, we do not believe that anything like 500 hours can properly be regarded as having been spent on work for which he should be compensated out of the estate. Under all the circumstances, we conclude that an allowance of \$2,000 represents reasonable compensation to applicant in this case.

An appropriate order will issue.

WISCONSIN PUBLIC SERVICE COMMISSION

Re Eau Claire Valley Telephone Company

2-U-2528

December 30, 1947

APPPLICATION of telephone company for authority to increase rates; granted.

Discrimination, § 90 — Rates — Concessions to stockholders.

1. Application of a lower rate to stockholders than to nonstockholders is discriminatory, p. 172.

Service, § 294 — Telephone connections — Burden of cost.

2. A small rural telephone company which finds it difficult to raise capital may require subscribers to pay for the lateral circuit from its main line, p. 172.

Service, § 158 — Conditions — Purchase of stock.

Statement by Wisconsin Commission that a person is entitled to service from a rural telephone company at reasonable rates even though he has refused to purchase stock as requested, p. 172.

By the COMMISSION: The Eau Claire Valley Telephone Company, Route 1, Eau Claire, on October 22, 1947, filed an application with the Commission for authority to increase rates. Notice of investigation and hearing and assessment of costs was issued on November 4, 1947.

APPEARANCES: Eau Claire Valley Telephone Company, by Frank G.

WISCONSIN PUBLIC SERVICE COMMISSION

Volkman, president, and Edward F. Volkman, lineman and repairman.

The applicant is a small rural telephone company with seventeen subscribers, nine of whom are stockholders. The company does not own a switchboard, and its subscribers are switched by the Wisconsin Telephone Company at the latter company's Eau Claire exchange.

This application was precipitated by a complaint of one of the subscribers who is not a stockholder. The complainant stated that the company required him to build his own stub line to meet the main pole line and that nonstockholders were required to pay a higher rate than stockholders. The Eau Claire Valley Telephone Company admitted that it charges nonstockholders \$1.75 per station per month and stockholders \$1.25 per station per month. In defense of this differential it was pointed out that costs of service were in excess of \$1.75 per station per month and that it had been necessary in recent years to make a stock assessment which resulted in stockholders actually paying more than \$2 per month per station. Furthermore, it was claimed that all subscribers since the organization of the company had been required to pay for the lateral extensions from the main line to reach the premises of the subscriber.

[1] Applicant now desires the Commission to authorize a uniform rate of \$2.50 per station per month to apply to both stockholders and nonstockholders and to set up an extension rule based upon the present practice.

The Commission has ruled in similar cases that it is discriminatory to apply a different rate to stockholders and nonstockholders. Stockholders

are entitled to a reasonable dividend if earned. Compensation for furnishing capital should be obtained in the form of a dividend and not as a rate rebate.

It is difficult for small telephone utilities to raise sufficient capital to make extensions, particularly when applicants for service refuse to purchase stock in the company. The complainant referred to above refused to buy stock when requested to do so by the officers. However, complainant has no legal obligation to purchase such stock and is entitled to service at reasonable rates even though he has refused to purchase stock as requested.

It is also difficult to determine the actual costs of service of small switched-line companies because: (1) maintenance may be deferred for several years and then completed in one year, (2) labor may or may not be donated depending on the good will and available spare time of the subscribers, (3) depreciation accruals are very rarely set up, and (4) the annual report does not furnish much detail.

We have therefore used average expenses for comparable small rural switched lines in setting up an estimated income account. The estimated annual income account which includes revenues under the proposed rate is shown below:

Exchange revenues	\$510
Operating expenses	
Labor	120
Supplies	30
General expense	15
Paid for switching	184
Depreciation	60
Taxes	33
	<hr/>
	\$442

Net operating revenues..... \$68

[2] The indicated net operating revenues of \$68 is not excessive and the

RE EAU CLAIRE VALLEY TELEPH. CO.

proposed rate of \$2.50 per station per month for rural multiparty service will be authorized. The applicant has established that it has required all of its subscribers to pay for the lateral circuit from its main line. While this arrangement is not followed by larger companies, it is reasonable where the company is small and capital is difficult to raise.

The Commission finds:

1. That the present exchange rates of the Eau Claire Valley Telephone Company are unreasonable.

2. That the exchange rates herein ordered are reasonable, just, and lawful.

ORDER

It is therefore *ordered*:

That the Eau Claire Valley Tele-

phone Company be and hereby is authorized and directed to make the following rates effective with the first billings subsequent to the date of this order:

	Monthly Rates	
	Gross	Net
Rural multiparty	\$2.75	\$2.50

Billing Rule

Subscribers are billed on or about the 1st day of each month at the gross rate. The net rate applies to all bills paid on or before the 20th of the month. The gross rate applies to bills paid after the 20th of the month. When the bill is not paid by the 25th of the month, the service becomes subject to disconnection after five days' written notice.

Extension Rule

The company will construct the telephone line along the main highway. A prospective subscriber is required to furnish any lateral lines in excess of 500 feet necessary to reach his premises. Where more than one subscriber is to be served from a lateral line, the company will contribute 500 feet per subscriber.

MAINE PUBLIC UTILITIES COMMISSION

Re Emergency Rate Increase for Electric Service in Aroostook County

General Order 1-U
January 15, 1948

I NVESTIGATION of emergency electric rate increase; emergency surcharge discontinued.

Valuation, § 48 — Rate base determination — Adjustments to earlier determination.

1. Figures produced to support a rate base are meaningless when, starting with an earlier determination based on reproduction cost less depreciation, yearly book retirements and adjustments based on original book cost are made over a period of years, p. 175.

Rates, § 634 — Emergency increase — Burden of proof.

2. The burden of demonstrating the need for continuing an emergency rate increase is on the utility, p. 176.

Return, § 87 — Electric utility.

3. A 4.8 per cent rate of return was not considered excessive for an electric utility, p. 176.

MAINE PUBLIC UTILITIES COMMISSION

Rates, § 630 — Emergency increase — Need for supporting evidence.

4. Continuance of an emergency rate increase was denied an electric utility where the evidence offered in its support was indefinite as to the effect of increased costs on company revenue for the coming year and where the company did not adequately explain why increased expenses at several of its plants were entirely allocated to the coming year instead of being divided over the year gone by and the year to come, p. 176.

APPEARANCES: Herbert E. Locke, and Joseph B. Campbell, of Locke, Campbell, Reid & Hebert, Augusta, Scott Brown, Houlton, for Maine Potato Growers & Shippers Committee, Inc., Maine Institute of Starch Manufacturers, and Chambers of Commerce of various Aroostook county towns; James Madigan, Houlton, for Houlton Water Company; Leon V. Walker, Portland, for Maine Public Service Company.

By the COMMISSION: In October, 1947, Maine Public Service Company, a public utility serving northern Maine with electricity, found itself in difficulty due to drought conditions. The failure of its own water resources, the inability of Bangor Hydro-Electric Company to furnish energy to Maine Public Service Company by reason of water shortage, brought about a situation calling for drastic curtailment in the use of energy by Maine Public Service Company customers.

Street lighting was eliminated — store lighting cut in half—power was on two hours and off two hours during the day—loads in excess of 5 horsepower were operated during 8 P. M. to 8 A. M. and conditions rapidly approached chaotic.

This Commission enlisted the aid of Governor Hildreth and, as a result, two Navy ships were tied up at South Portland to generate power for Aroos-

took county, 2-1,000 kilowatt generators were procured—one installed at Washburn, the other at Fort Fairfield.

The Maine Public Service Company had on order and eventually received a 1,000-kilowatt generator placed in Caribou and gradually the shortage of electricity was partially relieved.

Maine Public Service Company spared no expense in trying to eliminate the difficulty and asked the Commission for relief by the placing of a 1 cent per kilowatt-hour surcharge. This the Commission granted on a temporary basis on November 21, 1947. Since this Commission made the arrangements for this emergency aid it was familiar with the costs involved and from estimates of the effect on the company, felt that the temporary emergency charge was proper. Very substantial deposits were properly required by the Navy and temporary generating plants required considerable funds. The result was a cost of energy far above normal rates and curtailed use was expected to heavily reduce revenue giving every indication of serious losses by the company.

Protests against the increase were received and hearing was ordered at Presque Isle, December 4, 1947. At the request of protestants hearing was postponed until December 30, 1947, in order for them to properly prepare their case. A subsequent delay to Jan-

RE EMERGENCY RATE INCREASE FOR ELECTRIC SERVICE

uary 8, 1948, was granted at the request of the company and on that date hearing was held, with the appearances noted as above.

The burden is on the Maine Public Service Company to demonstrate the need of the requested surcharge. To accomplish this the company introduced, beside several witnesses, four exhibits.

Company's Exhibit I shows the estimated effect of the 1-cent surcharge for November and December, 1947, and January, February, and March, 1948. It also shows related expenses occasioned by the emergency. The year 1947 the emergency costs were computed as \$74,376; the revenue due to surcharge at \$40,943.

Company's Exhibit II is a computation to find the excess cost of electricity from ship and emergency units over normal water-power conditions. The company assumed a normal water condition cost of .6744 cents per kilowatt hour. No evidence was offered to explain this figure.

Company's Exhibit III indicates that for the year 1947 (eleven months actual and December estimated) the utility operating income, exclusive of surcharges, was \$91,959, with a total net income of \$186,031. The gross income (1947 minus surcharge) was \$260,581, which figure adjusted to the Northern Division was \$240,042.

[1] According to Company's Exhibit IV with the surcharge the company earned in 1947, 4.01 per cent on a rate base of plant minus depreciation plus working capital and materials and supplies. On this basis the return is lower than reasonable and with the exception of protestant's Exhibit 1, this was all the evidence introduced show-

ing return. The figures produced for 1947 in protestant's Exhibit 1 are meaningless in the solution of a rate base. Starting with a valuation decree in 1931, based on reproduction cost less depreciation, protestant's witness made yearly book adjustments for sixteen years. The retirements and adjustments in property for this period are based on the original book cost and have no relation to the 1931 valuation figure. Such a compilation of figures cannot be accepted as of probative value.

We are also unable to reconcile the company's figure of cost of this emergency aid during November and December. Since this Commission made the arrangements, we received information as to the various charges and we were advised of over \$130,000 of emergency costs during these two months, while the company has set up only \$74,000 for the same period. The \$130,000 did not include all expenses.

For the year 1948, Company's Exhibit I shows the anticipated revenue produced by the surcharge during January, February, and March to total \$127,850. The estimated expenses occasioned by the emergency total for the same months is indicated at \$255,350. Whether all these estimated expenses should be included in the emergency charges is doubtful. There are some which are at least questionable and concerning which more information would be required.

The evidence produced by the company leaves the Commission entirely in the dark as to the effect of this excess emergency cost over company revenue for the entire year 1948.

The company has made no effort by testimony or exhibit to indicate wheth-

MAINE PUBLIC UTILITIES COMMISSION

er this three months' loss will be made up during the other nine months, whether the company will be in the red or make a profit and, if so, how much. The president of the company testified, that the largest daily output of kilowatt hours in the history of the company occurred in January, 1948. Also it is to be noted that no expense has been allocated for the Washburn plant during November and December of 1947, although much if not all work was completed before January 1, 1948. The same is true, with minor variations, as to the Fort Fairfield plant. On the other hand, item of \$10,000 for each plant (W. & F. F.) or \$20,000 per month are carried as estimated expense—"temporary emergency facilities" for January, February, and March, 1948. No explanation was offered as to why all the expense of these two plants was allocated to 1948 and none to 1947, in which latter year most of the expense was incurred in setting up the units and housing them and getting them on the lines.

[2] The burden of proof to justify the proposed increase is on the company. (Section 69 Chap 40 Rev Stats 1944.) With the expenses made up as per Company's Exhibit I and no evidence to show the effect on 1948 earnings, the Commission cannot draw a conclusion to warrant a continuance of the surcharge.

[3,4] It is true that there will be some extraordinary expenses in 1948. As previously noted, a very substantial part of these expenses the Commission

had already considered in 1947. With the load increasing as it has the company is bound, when water conditions improve, to sell more of its cheaper hydro power. This will help absorb some of these present high costs.

From the evidence presented to it, the Commission is satisfied that even with the application of the 1-cent surcharge in December, the company will not have earned more than a fair return in 1947. Even the protestants make no claim to the contrary, their Exhibit I indicating a rate of return of 4.8 per cent for that year.

We conclude, however, that the evidence does not support the company's contention that the surcharge should be applied in 1948.

Therefore, it is *ordered, adjudged, and decreed*, that the temporary period established by General Order No. 1-U issued by this Commission November 20, 1947, for the application of a surcharge of one cent per kilowatt-hour to all bills for electric service to customers served by the Maine Public Service Company Aroostook County and to customers of the Farmers Electric Company, Fort Fairfield Light and Power Company, Houlton Water Company, Limestone Electric Company, Mars Hill Electric Company, Monticello Electric Company, Van Buren Light and Power District, and Washburn Electric Company shall be limited to one month's billing and said charge shall not apply to any second or subsequent billings.



Industrial Progress

A digest of information on new construction by privately managed utilities; similar information relating to government owned utilities; news concerning products, supplies and services offered by manufacturers; also notices of changes in personnel.



Minnesota Pwr. & Lt. Plans Large Expansion Program

MINNESOTA POWER & LIGHT COMPANY plans to spend approximately \$11,600,000 for construction in 1948 and 1949.

The 1948 construction program will involve expenditures of about \$6,000,000. This phase of the program calls for the installation of an additional 33,000-kilowatt steam-electric generating unit and accessory equipment at the Duluth steam-electric station; installation of an additional 12,000-kilowatt hydro-electric generating unit and associated equipment at the Thomson hydro-electric station and additions to transmission lines and substations. Construction of a steam-electric generating station of 33,000 kilowatts capacity to be located on the Mesabi range is planned to begin in 1949.

Power Company Tug Boats Use Two-Way Radio

THE CONSOLIDATED GAS ELECTRIC LIGHT AND POWER COMPANY of Baltimore, Maryland, has recently gone on the air with a 50-watt Motorola 160 megacycle central station to maintain contact with their two tug boats and a cable patrol boat equipped with mobile radiotelephones—operating in Baltimore Harbor on Chesapeake Bay.

Traversing distances from 10 to 25 miles in any one direction within the harbor, the tugs haul barges from loading docks to the company's four electrical generating plants and a gas plant. Coal is hauled from railroad piers to electrical generating plants, and coke from steel mills on Sparrows Point is carried to the gas plant.

United Gas Plans Largest Program in History

UNITED GAS CORPORATION plans one of the greatest construction and development programs in its long history for 1948, according to N. C. McGowen, president.

More than \$26,000,000 is planned to be spent by the corporation and its subsidiaries during the year on extensions of service and development. Mr. McGowen said the companies have spent more than \$200,000,000 on similar projects since 1930.

Bulletin on Dust Collectors

TYPICAL installations of unit type Dustkop dust collectors are illustrated and de-

scribed in a four-page bulletin No. 510 titled "Put a Permanent Stop to Dusts" issued by Agat-Detroit Company, Ann Arbor, Michigan.

Dust collectors for stopping dusts and lint from grinding, polishing and buffing operations as well as vapor collectors to trap the mist and vapor from thread grinders and centerless grinders are included in the bulletin, together with prices of the units.

Finish Developed for Electrical Wire

A NEW slippery finish for electrical wire has been developed by United States Rubber Company to make the wire pull more easily through sharp bends in conduit.

The super-slippery surface is produced by a new wax coating on the insulation which is said to make the wire slide with one-half or one-third the amount of pulling formerly required.

The wax is used on United States Rubber's

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Laytex wire, widely employed in homes and commercial buildings. It is expected to speed up the installation of electrical equipment, particularly in locations difficult of access and where sharp-angle conduit is employed in the electrical system.

Public Service Co. of Oklahoma Plans 3-Year Program

PUBLIC SERVICE COMPANY OF OKLAHOMA will spend \$16,941,000 for additions, extensions, and improvements to its electric properties during the next three-year period. Of this sum about \$4,745,000 will be expended for the purpose of increasing capacity of generating stations, approximately \$5,333,000 to build and improve transmission lines, and about \$6,863,000 for construction and improvement of distribution systems.

Water Heater Promotion Campaign

A NEW 7-point electric water heater promotion campaign has been launched by Hotpoint, Inc. The program entitled "Get Hot on Hotpoint Water Heaters," is being timed "to break just prior to the peak water heater selling season, and is designed to help dealers step up sales and profits," according to Edward R. Taylor, manager of merchandising.

The campaign, to be followed by similar emphasis on other individual products, keynotes long-range marketing policy.

West Penn Plans 3-Year Construction Program

ACCORDING to the annual report, the West Penn Electric Company is engaged in a 3-year construction program involving expenditure of about \$96,600,000 for the years 1947, 1948, and 1949. The report is the first since West Penn became a publicly owned company last January.

In connection with the expansion program, it was reported that construction expenditures last year amounted to approximately \$28,600,000. It is estimated that outlays this year will total \$39,700,000 and 1949 construction outlays are estimated at \$96,900,000.

Contract for 51 By-product Coke Ovens

CONTRACT for the erection of a battery of 51 by-product underjet coke ovens at Peoples Gas Light & Coke Company's Crawford avenue plant in Chicago was awarded to Koppers Company, Inc.

The additional ovens, to be built at a cost in excess of \$3,500,000 will increase the present carbonizing capacity by approximately 40 per cent.

Joseph Becker, vice president of Koppers and general manager of its engineering and construction division, said that the ovens to be


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G-E Announces New Water Heater

A BUILT-IN electric wall heater for use in bathrooms and other rooms where additional instantaneous heat is desired has been announced by D. C. Spooner, Jr., manager of the General Electric Company's automatic blanket and sunlamp division.

Scheduled for shipment to distributors across the country in the next few weeks, the new heater will carry a recommended national retail price of \$15.50, including tax.

Operating on the radiant-convection principle, the built-in heater is rated at 1,320 watts, 115 volts alternating and direct current. It delivers 4,507 BTU per hour.

According to Mr. Spooner, the new heater may be quickly and easily installed in either old or new homes.

Babcock & Wilcox Company Issues Bulletin

C OAL-PULVERIZING and burning equipment for industrial furnaces and for steam generation is discussed in a bulletin issued by the

Babcock & Wilcox Company. The development and application of such equipment is described and the text is illustrated with diagrams and photographs.

Adapted from a report to the Federal Power Commission by D. V. Sherban of the Babcock & Wilcox Company, the bulletin analyzes the successful application of pulverized-coal firing in various types of industry. It states that "coal in pulverized form, when supplied by a properly applied system can be burned as efficiently as oil and gas, and in many instances its heating characteristics produce results surpassing those of other fuels."

Gulf Oil Corporation Announces New Oil

A NEW flushing oil, specifically engineered for cleaning the oil circulating systems of steam turbines, has been announced by Gulf Oil Corporation.

Named "Gulf Turbine Flushing Oil" the new product is effective for both new turbines and older units. It removes abrasive contaminants, grease type slushing compounds, sludges, and organic acids. It contains an effective rust inhibitor for protecting clean metal surfaces.

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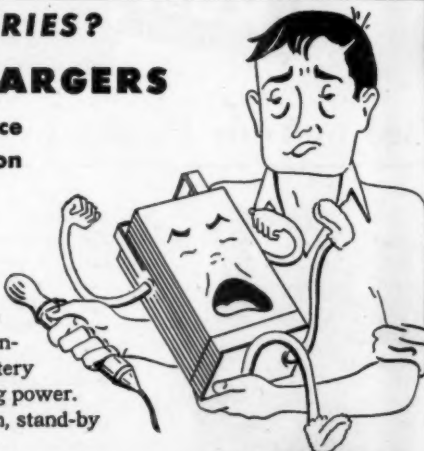
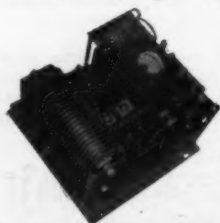
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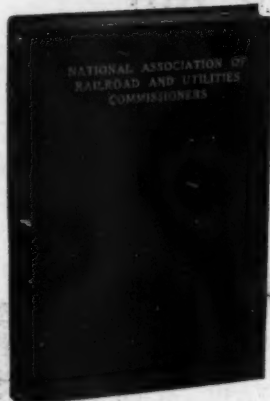
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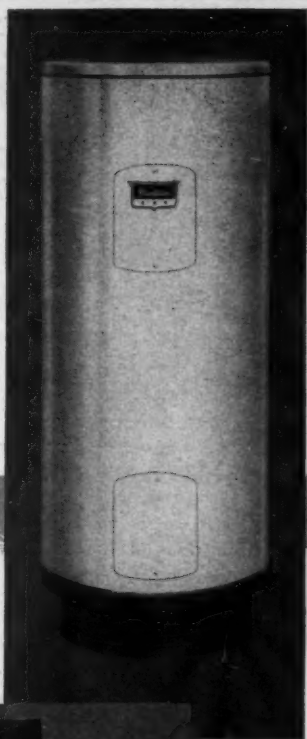
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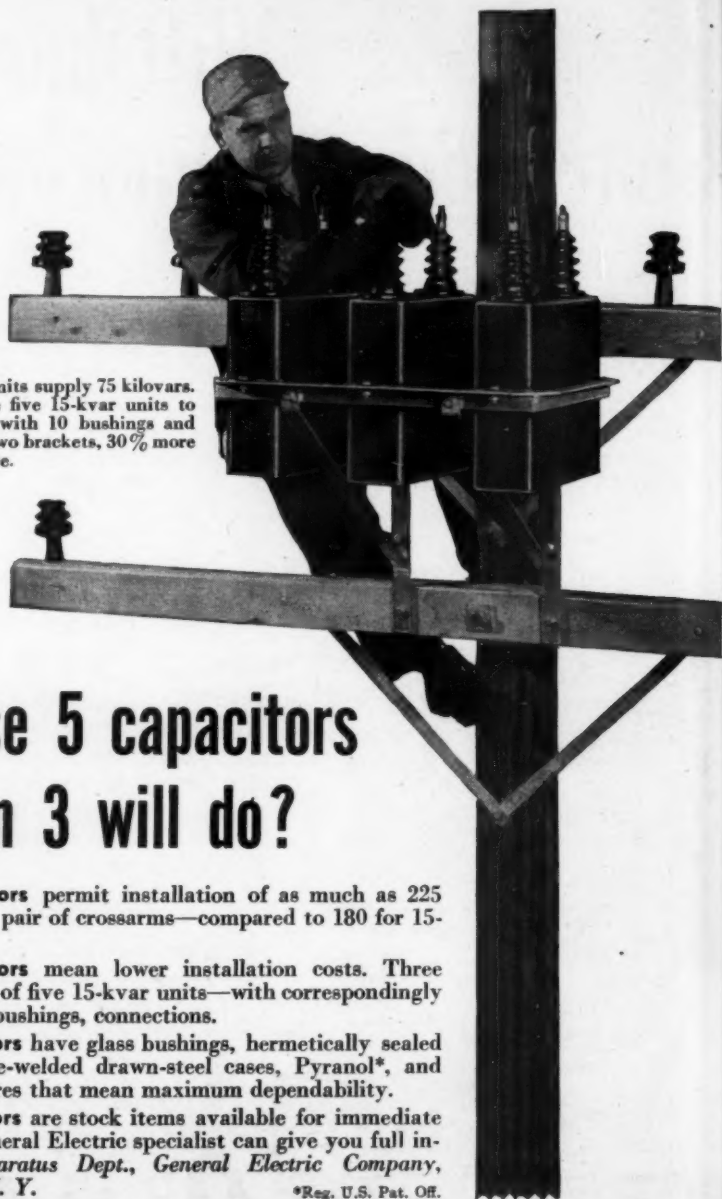


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tionally-known authority, the lamps and fixtures are accurately proportioned to duplicate in miniature the actual conditions met in store illumination. This Pittsburgh Store Modernization Caravan shows how present structures, as well as new buildings, can become even more effective through proper lighting and proper design.

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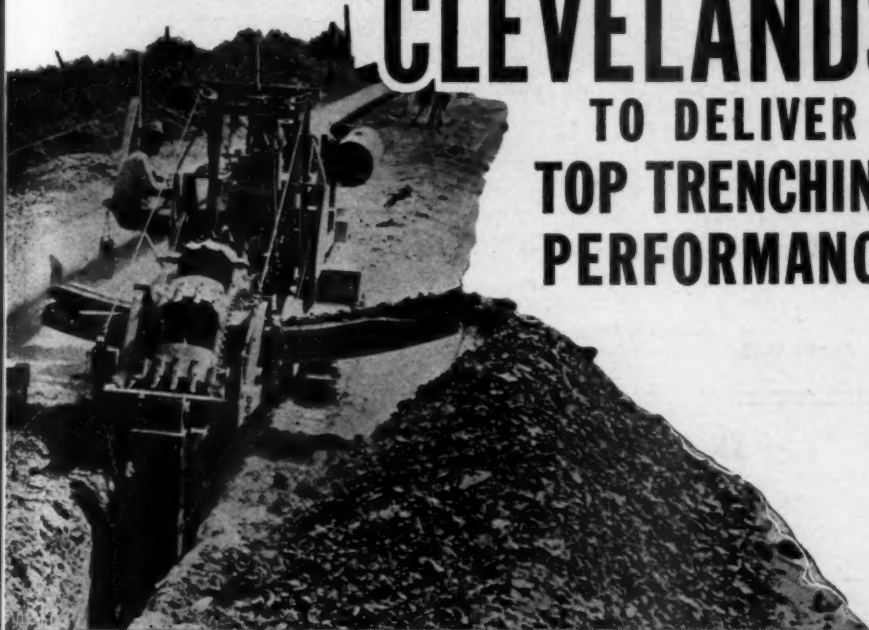
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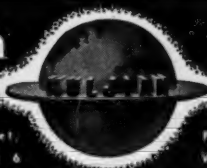
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Wheelbase—like 1934 body	Yes	No	64 in.	64 in.	64 in.
Wheelbase Front axle (Motor coupling—flex coupling)	50 in.	30 in.	50 in.	50 in.	50 in.
Motor—Front axle (Motor)	Yes	No	No	No	No
Motor—Rear axle—Left	515 ft. lb.	515 ft. lb.	515 ft. lb.	515 ft. lb.	515 ft. lb.
Motor—Rear axle—Right	515 ft. lb.	515 ft. lb.	515 ft. lb.	515 ft. lb.	515 ft. lb.
Maximum horsepower	100	80	100	80	100
Front spring length (Front and Rear "Double Flats")	234 in.	171 1/2 in.	182 in.	170 in.	182 in.
Sub-Frame Width—Measure of Rigidness	57 1/2 in.	57 1/2 in.	57 1/2 in.	57 1/2 in.	57 1/2 in.
Maximum Gross Axle Wt.	6750 lb.	715 lb.	6750 lb.	6750 lb.	715 lb.
Wide Doors and One Quarter Windows	Yes	No	No	No	No

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